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An up-to-the-minute report on Teleglobe 1996

TELEGLOBE

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TELEGLOBE REGISTERED STELLAR GROWTH IN 1996. GLOBAL OVERSEAS TRAFFIC VOLUME REACHED 447 MILLION MINUTES, NEARLY FOUR TIMES THE 1995 FIGURE, AND TOTAL TRAFFIC INCREASED BY 26% TO 2 BILLION MINUTES. TELEGLOBE'S CAPABILITIES CAN BE ACCESSED IN VIRTUALLY ALL COUNTRIES. IN KEY MARKETS, THE CORPORATION ESTABLISHES ITS PRESENCE THROUGH ITS OWN GATEWAYS.

9%

in global overseas traffic

Charles Sirois
Chairman of the Board
and Chief Executive Officer

A year of growth

Fiscal 1996 was a year of unprecedented growth for Teleglobe as a global provider of overseas telecommunications services. We reached major milestones in our international deployment and in the expansion of our customer base. This was achieved through intense sales efforts, geographic expansion, new product launches and the optimization of our global network. As a result, in 1996, traffic and earnings increased substantially and Teleglobe's market capitalization doubled.

Total traffic, the main benchmark we currently use, increased by 26% to more than 2 billion minutes from 1.6 billion minutes in 1995. As expected, most of this traffic gain came from stellar growth in global overseas traffic—telecom traffic routed by Teleglobe which neither originates nor terminates in Canada. This type of traffic quadrupled over 1995 levels.

We are also highly satisfied with Teleglobe's financial performance, which surpassed our objectives. Total revenues were $1.71 billion in 1996, an increase of 10.5% over the previous year. Net income amounted to $112.5 million ($1.68 per share on a fully diluted basis), up 25.8% from $89.4 million ($1.31 per share on a fully diluted basis) in 1995. Cash flow from operations reached $291.8 million, compared with $278.8 million in 1995.

Teleglobe International: achieving our vision

Teleglobe International Corporation, created in 1995, leads the implementation of our global growth strategy. In 1996, as indicated by the traffic figures, it made major strides in developing Teleglobe as a global telecom carrier. Teleglobe International's team includes more than 230 highly talented people, all under the experienced guidance of Paolo Guidi, President and Chief Executive Officer. Together, they are a formidable force in the very competitive world of international telecommunications.

Teleglobe International attracts customers from the rising number of emerging carriers around the world which require global connectivity services, as well as among traditional domestic and regional operators. It is in a position to route a substantial amount of their overseas traffic more economically than they could with their own facilities. Moreover, Teleglobe International is penetrating specialized telecommunications markets by offering innovative services to large corporate users and specific consumer groups.

We reached major milestones in our international deployment and in the expansion of our customer base.

Teleglobe International has established its presence as a network operator in three of the largest long-distance markets in the world: the United States, Germany and the United Kingdom. Nineteen hundred and ninety-seven will see us continue our US expansion and develop new traffic sources in Europe, Asia and Latin America.

Accessing the 23-billion-minute-a-year US international market and becoming a truly North American-based global carrier has been a priority for many years. This goal has been achieved. In 1996, the Federal Communications Commission (FCC) granted Teleglobe International's subsidiary, Teleglobe USA, a global facilities-based license, which improved its ability to originate and deliver US-overseas traffic while allowing it to be more flexible and competitive in its offerings. Teleglobe International also attracted a solid customer base in several market segments, assembled a strong product management team and secured extensive routing facilities.

In Europe, where liberalization of telecommunications services will accelerate significantly starting in January 1998, Teleglobe established solid beachheads. We are currently in a highly favorable position to benefit from deregulation and the liberalization of this market.

In 1996, Teleglobe International was granted facilities-based licenses in the United Kingdom and Germany, the two largest European telecom markets. Total two-way international traffic in these countries was some 17 billion minutes in 1995. Teleglobe has been operating as a reseller in the UK since 1995, and our newly acquired facilities license will allow us to provide a full range of telecommunications services between the UK and the rest of the world.

Teleglobe Canada: the transition to competition

The Canadian market is poised for new business opportunities with the continuing trend towards full liberalization. In preparation for the end of its exclusive mandate on intercontinental facilities in Canada, Teleglobe Canada is pursuing its drive to ensure that we have the most competitive cost structure for the delivery of overseas traffic. It is also developing new service offerings to meet evolving market needs. As we noted in 1995, we view further liberalization of this market as extremely positive for both consumers and industry participants, since it will stimulate further innovation and demand for international services. It will also present Teleglobe Canada with opportunities to introduce new value-added and business services and capitalize on our global growth strategy.

Our primary focus on overseas telecom services is the unique approach that makes us an attractive partner for virtually all carriers and service providers, including the largest long-distance carriers.

The presence of well-established operations in competitive foreign markets increases our ability to improve the efficiency of our global network, gain new traffic sources, seize new opportunities and find new ways to be innovative, thus building further on our current competitiveness.

Global wireless services: *ORBCOMM*™ service now available

In satellite-based global wireless services, Teleglobe and its partner Orbital Sciences Corporation made history in 1996 with the launch of the *ORBCOMM* service. *ORBCOMM* is a satellite system developed to provide real-time, low-cost two-way data and messaging communications from portable terminals anywhere on Earth. In February, it became the first system of its kind to be available when it began offering service commercially in the United States. *ORBCOMM* also became the world's first fully financed non-geostationary system. ORBCOMM Canada Inc., a subsidiary of Teleglobe, was granted a license in 1996 to distribute the service domestically.

The *ORBCOMM* system ensures our leadership position in global wireless satellite-based telecom services. As we proceed with the completion of the 28-satellite constellation, we are also rapidly introducing the marketing structure needed to make *ORBCOMM* a successful global commercial offering.

Our other satellite venture, *Odyssey*™, is at the financing stage and we expect to announce the attainment of major milestones in 1997. *Odyssey* is designed to provide affordable voice and data communications services on a global scale.

Appointments

In August, we announced the appointment of Guthrie J. Stewart to the position of President and Chief Executive Officer of Teleglobe Canada Inc. Mr. Stewart's primary objective is to consolidate our position in Canada at a time when the domestic and overseas markets are moving toward full competition. Our leadership in service quality, innovation and pricing will be maintained. In 1996 we also announced the appointment of Paul J. Lamontagne as President and Chief Operating Officer of Teleglobe Media Enterprises.

Ronald Osborne, President of BCE Inc., and Pierre Collins, President of Capital Communications at the Caisse de dépôt et placement du Québec, were appointed to the Board of Directors in 1996. I wish to thank all members of the Board for their dedication, especially John T. McLennan, President and Chief Executive Officer of Bell Canada, who completed his mandate as a director during the past year.

More growth ahead

Fueling growth in the international telecommunications environment means increasing our efficiency, introducing new applications at a faster pace, attaining higher product and service margins on a global scale and expanding our geographic presence. Our primary focus on overseas telecom services is the unique approach that makes us an attractive partner for virtually all carriers and service providers, including the largest long-distance carriers. Our global marketing organization and our state-of-the-art network management facilities in Canada make up a chain of centers of excellence whose collaborative efforts are also fundamental to Teleglobe's global value.

Our accomplishments in 1996 demonstrate that Teleglobe's philosophy of continuous improvement is key to its success. Because people represent our most valuable asset, we are currently reviewing our processes to further improve the alignment of our business and human resources strategies, with a view to becoming a truly global company.

Given the intensely competitive nature of our industry, we must continue to work extremely hard. However, the very substantial progress we made this past year, thanks to the determination and commitment of the individuals and teams who make up the organization, gives me confidence that our future efforts will be well rewarded. I would like to express my sincere appreciation to all Teleglobe employees.

Charles Sirois
Chairman of the Board and Chief Executive Officer

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Teleglobe's network reaches some 240 countries and territories, making it one of the most extensive in the world. It includes capacity in approximately 100 submarine cables, as well as satellite links via INTELSAT and other satellite systems. At the heart of the network, *Globesystem Atlantic*™ is a high-capacity cable between North America and Europe, the world's two largest telecom markets.

0 countries and territories

ARCTIC OCEAN
PACIFIC OCEAN
INDIAN OCEAN
RUSSIAN FEDERATION
ASIA
MONGOLIA
CHINA
JAPAN
PHILIPPINES
INDONESIA
SINGAPORE
NEW GUINEA
AUSTRALIA
ALASKA (U.S.)
CANADA
NORTH AMERICA
UNITED STATES
MEXICO
CENTRAL AMERICA
GUAM (U.S.)
MACAO (PORT.)
HONG KONG (U. K.)
Nakhodka
Beijing
Asan-Kun
Boeun
Naoetsu
Ibaraki
Shanghai
Okinawa
Guangzou
Infanta
Batangas
Pinugay
Cebu
Phetchaburi
Si Racha
Saigon
Kota Kinabalu
Telisai
Bukit Timah
Jakarta
Jatiluhur
Port Moresby
Cocos Is.
Port Hedland
Perth
Sydney
Oxford Falls
Norfolk
Warkworth
Takapuna
Clear
Auckland
Suva
L'Île Nou
Papenoo
Keawaula
Makaha
Seward
Port Alberni
Vancouver
Lake Cowichan
Astoria
Pacific City
Bandon
Point Arena
San Francisco (1997)
Niles Canyon
San Luis Obispo
Los Angeles (1997)
NPC
TPC-3
TPC-4
TPC-5
HAW-4
HAW-5
ANZCAN
KEWMAK
PACRIM WEST
PACRIM EAST
TASMAN 2
APCN
APC
TAE
R-J-K
H-J-K
K-J-G
C-J
G-P-T
OLUHO
TAIGU
T-V-H
FLAG (1997)
B-M-P
K-K-K
B-S
IOCOM
ASEAN
M-T
SEA-ME-WE 2
174° E
177° E
179° E
180° E
183° E
KEY
Cable station
Earth station complex
International center
Inmarsat earth station
Internet gateway
Domestic link
International center and internet gateway
Teleglobe USA Access Location
Submarine Cables
Coaxial cable
(199...) In service by
Fiber-optic cable
Branching unit
Planned or under construction
Satellites
Inmarsat
Intersputnik Express
Intelsat V
PanAmSat I
Intelsat VI
Orion I
Intelsat VII

GREENLAND (DENMARK)
SVALBARD (NOR.)
Godthaab
Frederiksdal
Hoefn
Skyggnir
Vestmannaeyjar
CANTAT 3
Faroe Islands (DEN.)
Tanum
Elk
Stockholm (1997)
Kingisepp
RUSSIAN FEDERATION
Whitehills
Redcar
Elfordstown
Kilmore
London
EUROPE
Dubna
Arbat
Moscow
Minsk
Koszalin
Warsaw
Norden
Hameln
Sedlec
Psary
Lviv
Kiev
Paris
Roubaix
Frankfurt (1997)
Bercenay
St-Hilaire-de-Riez
Leuk
Aflenz
Balaton
Kishinev
Odessa
Novorossusk
Marseille
Aussaguel
Cheia
Jugoslavija
Tbilisi
Yerevan
Istanbul
Ankara
Marmaris
Santander
Barcelona
Palma
Lario
Palermo
Thermopyles
Sintra
Sesimbra
Rodiles
Alger
Tetouan
Casablanca
Lepaina
Tripoli
ASIA
Almaty
Urumqi
Tashkent
Bishkek
Ashgabad
Dushanbe
CHINA
Tehran
Dujail
Kaifan
Kuwait City
Manama
Ras Abu Jarjur
Riyadh
Doha
Dubai
Abu Dhabi
Al Kharj
Ibri
Deh Mandro
INDIA
Arvi
Bombay
Vikram
Madras
Colombo
Jeddah
Saha
Aden
Djibouti
IOCOM
FLAG (1997)
SEA-ME-WE 2
Des Laurentides
Pennant Point
Montréal
Mastic Bay
Green Hill
Staten Island
New York
CANTAT 3
TAT-10
TAT-12
PTAT-1
TAT-11
TAT-13
TAT-8
TAT-9
CANUS 1
PTAT-1
Azores Is.
Devonshire
ATLANTIC OCEAN
COLUMBUS 2
EURAFRICA
PENCAN 5
SAT-2
Madeira
Canary Islands
Grand Canary
Vero Beach
BAHAMAS II
AMERICAS-1
New Providence
Grand Turks
CARAC
ST. MARTIN (FR/NETH)
GUADELOUPE (FR)
MARTINIQUE (FR)
BARBADOS
ST. VINCENT AND THE GRENADINES
TCS-1
ECFS
Aruba
Santo Domingo
Utibe
Panama
Camatagua
Macquerito
Georgetown
Choconta
Buenaventura
Quito
Punta Carnero
AMERICAS-1
305° E
307° E
315° E
317° E
322.5° E
325.5° E
328.5° E
335.5° E
338.5° E
342° E
344.5° E
346° E
Intersputnik (express)
359° E
60° E
64.5° E
66° E
Gandoul
Ouagadougou
Karma
AFRICA
Somgonde
Wonkifong
Abomey-Calavi
Victoria Island
Abidjan
Nkutense
Lanlate
Zamengoe
N'koltang
Mougouni
Longonot
Mwenge
Mwembeshi
Kanjadza
Mazowe
Kgale
Pretoria
Cape Town
Cassis
INDIAN OCEAN
BRAZIL
SOUTH AMERICA
Fortaleza
Tiwanacu
Arica
Morungaba
Aregua
Florianopolis
ARGENTINA
Placilla
Curacavi
Longovilo
Lo Canas
Bosque Alegre
Maldonado
Manga
UNISUR
Las Toninas
Falkland Islands

Total traffic

(in millions of minutes)

	1992	1993	1994	1995	**1996**
Outbound	675.9	761.5	861.2	897.9	**914.6**
Inbound	445.4	503.4	543.8	603.4	**671.3**
Global (Transit, US, UK)	33.2	39.0	63.7	112.5	**446.9**
Total	1,154.5	1,303.9	1,468.7	1,613.8	**2,032.8**

Fueling growth

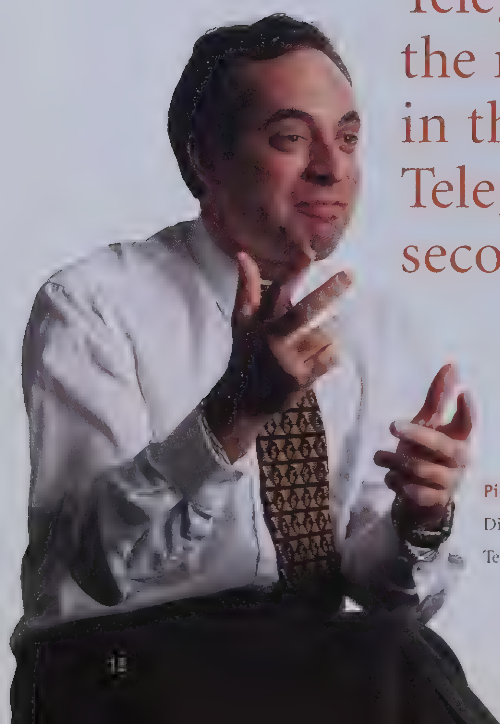
Teleglobe International Corporation, headquartered in the Washington, D.C. area, is leading Teleglobe's efforts to develop the global overseas telecom market. It designs, markets and provides global connectivity services for telecom carriers worldwide and for selected end-user markets.

In 1996, Teleglobe International's business grew significantly, as the company and its subsidiaries obtained facilities-based international carrier operating licenses in the United States, the United Kingdom and Germany; developed new service offerings for both the carrier and end-user markets; expanded their worldwide sales force; and increased their traffic volume to 447 million minutes, nearly four times the volume achieved in 1995. Teleglobe International currently provides international telecommunications services to carriers in more than 100 countries.

Building on network optimization

Teleglobe's network reaches some 240 countries and territories, and stands among the most extensive overseas networks in the world. In North America, Teleglobe's facilities represent the second-largest overseas network. They include capacity in approximately 100 submarine cables in which the Corporation has various levels of investment, and satellite links allocated by virtue of Teleglobe Canada's participation in INTELSAT and other satellite systems. The Corporation also owns and operates several satellite earth stations, cable landing stations and gateways (or switching centers) in Canada, as well as gateway facilities in the United States and the United Kingdom.

Teleglobe's network stands among the most extensive overseas networks in the world. In North America, Teleglobe's facilities represent the second-largest overseas network.



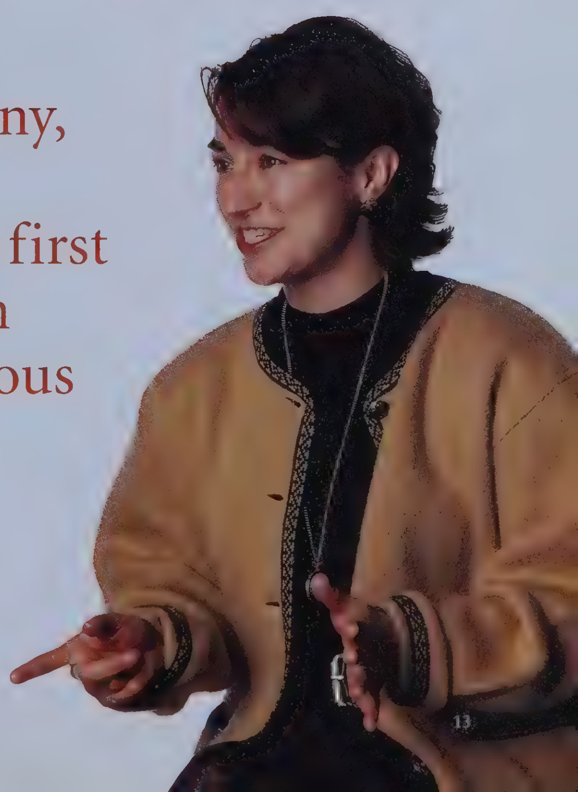
Pierre-Arnaud Cloutier
Director, Transmission Facilities Planning
Teleglobe International Corporation

Teleglobe's state-of-the-art network management center in Montréal employs some 150 people—engineers, technicians and support staff—who monitor and manage network operations around the world. In early 1996, Teleglobe's Canadian facilities received ISO 9001 certification, underscoring the high priority the Corporation gives to service quality.

Composed of two fiber-optic submarine cables, *CANTAT 3*™ and *CANUS 1*™, *Globesystem Atlantic*™ is a high-capacity, high-speed link between North America and Europe, and represents a major asset for Teleglobe. With landing points in the US, Canada, the UK, Germany, Denmark and Iceland, it was the first intercontinental cable system to be based on the synchronous digital hierarchy (SDH). This technology is key to offering advanced applications between North America and Europe, the world's two largest telecom markets. Among other things, the system has contributed to positioning Teleglobe as a leader in the routing of Internet traffic and the development of transatlantic multimedia applications.

Planning and engineering are key to lowering delivery costs through improved network efficiency. At the end of 1995, Teleglobe opened a state-of-the-art network management center in Montréal. Some 150 employees—engineers, technicians and support staff—monitor and manage network operations around the world. Aside from ensuring the uninterrupted flow of traffic and providing the highest possible quality of service, the center focuses on strategic network configuration in order to lower operating costs. Although cost reduction is very important in this highly competitive business, quality of service remains a priority. This was demonstrated early in 1996, when Teleglobe's Canadian facilities were granted ISO 9001 certification.

With landing points in the US, Canada, the UK, Germany, Denmark and Iceland, *Globesystem Atlantic* was the first intercontinental cable system to be based on the synchronous digital hierarchy (SDH).



Josée Tremblay
Country Manager,
Network Service Provisioning
Teleglobe Canada Inc.

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Teleglobe is now a network operator in three of the largest long-distance markets in the world: the United States, the United Kingdom and Germany. It became a full-fledged telecommunications carrier in both the US and the UK when it obtained facilities-based licenses to provide a complete range of international telecommunications services. In Germany, Teleglobe's facilities-based license covers liberalized services, including Internet and corporate voice services.

the world's top

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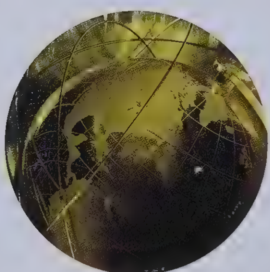
From Canada to the world

Canada

The agreement on basic telecommunications services reached at the World Trade Organization (WTO) in early 1997 defines the framework for opening the overseas telecommunications market in Canada. Already in late 1995, recognizing the increasingly competitive international environment and the globalization of telecommunications, Teleglobe Canada had asked the Government of Canada to further liberalize Canadian telecommunications by opening the overseas market to facilities-based competition and establishing a sustainable competitive environment.



Under the WTO agreement, the Canadian Government committed itself to terminating Teleglobe Canada's exclusive mandate on October 1, 1998; bringing Teleglobe under the same ownership rules as those applying to the other carriers under the *Telecommunications Act*; and completely liberalizing the carriage of international traffic by December 31, 1999. The agreement also calls for liberalizing ownership of submarine cable landings as well as global mobile satellite systems.

The Government must now proceed with the legislative and regulatory processes needed to ensure a smooth transition and meet the timetable it has set for establishing a competitive environment. An orderly transition will guarantee that Canadian consumers and businesses, as well as the telecommunications industry, realize the full benefits of further liberalization in Canada.

Teleglobe is preparing for greater competition and new market opportunities which will emerge when its exclusive mandate comes to an end. Teleglobe Canada is pursuing its drive to ensure its competitive cost position in the market and expand its ability to develop and distribute services that respond to the market's evolving needs.

The Corporation's growing presence and operations in competitive foreign markets are increasing its ability to achieve greater network efficiencies, capture new traffic sources, seize new market opportunities and develop its innovative capabilities. Moreover, Teleglobe will maintain its commitment to delivering the best customer service in order to remain the supplier of choice.

In 1996, based on Teleglobe Canada's track record, the Canadian Radio-television and Telecommunications Commission (CRTC) granted its request for a new regulatory regime more in line with competitive market realities. The new incentive-based regime calls for regulation of maximum rates rather than control of return on equity. In the meantime, Teleglobe Canada negotiated lower distribution rates with carriers in 75 countries, thereby reducing its operating costs by more than $78 million and enabling it to lower its own rates by some $15 million more than required by regulation. Aggressive rate reductions will continue in 1997.

Outbound overseas traffic from Canada totaled 915 million minutes in 1996, while inbound volume reached 671 million minutes, for an increase in total Canadian traffic of 5.7%. The slowdown in the growth of outbound traffic, which increased by 2% while inbound grew 11%, is due in part to bypass. Certain operators bypass Teleglobe's facilities by sending Canadian-originated overseas traffic first to the US and then overseas through US international gateways. Teleglobe is taking action to curb this practice. Thanks to strong growth in global overseas traffic, total traffic on Teleglobe's network increased 26%, to 2 billion minutes in 1996.

The *Canada Direct*™ service continued to perform well in 1996. This service allows Canadians traveling abroad to directly dial a voice-prompt system back home and have their calls billed to a Canadian number at Canadian rates, which are generally lower than foreign ones. *Canada Direct* traffic is growing, on average, more than 20% a year.

A third-country calling option is now available in more than 65 countries. *Canada Direct* was automated in 1996, and a new marketing plan was implemented.

In Canada, Teleglobe is committed to broadening its capabilities to market value-added applications with an expanded portfolio of services, especially in business applications such as high-speed data transmission and content hosting. While the Business Services group focuses on product development, Teleglobe Media Enterprises will identify and support the development of promising new applications, including collaborative broadband applications for the media production industry. Teleglobe Media Enterprises will also help implement high-speed private networks and support efforts to create, organize, store, distribute and access new digital content on the Internet. Another of its key roles will be to provide Teleglobe with avenues for diversification in emerging digital media services.

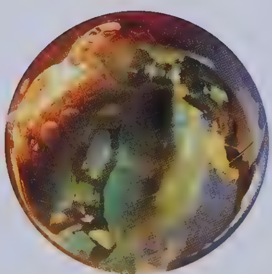
In 1996, Teleglobe Enterprises announced the creation of McDermott Submarine Cable Systems, a joint venture between Teleglobe Marine and the McDermott Group of New Orleans.

United States

All geographic expansion outside Canada is being managed by Teleglobe International Corporation and its subsidiaries. One subsidiary, Teleglobe USA, was created in 1995 to provide American carriers and other service providers with intercontinental telecommunications offerings. In 1996, Teleglobe USA increased its activities and its presence in the US market. With approximately 23 billion minutes a year of international traffic, the United States represents the largest market in the world. Moreover, the *Telecommunications Act of 1996*, intended to increase competition through the removal of regulatory barriers to the long-distance market, will result in new business opportunities for Teleglobe USA.

Teleglobe is preparing for greater competition and new market opportunities.

Michel Guyot
Director, Marketing
International Telephone Services
Teleglobe Canada Inc.



For example, Teleglobe USA is in a position to rapidly provide extensive overseas transmission services to the Regional Bell Operating Companies (RBOCs), thus supporting their rapid entry into the international services market. In 1996, Teleglobe USA signed contracts with Ameritech Communications Inc. and BellSouth Long Distance Inc. One agreement enables Ameritech to offer its customers both inbound and outbound international calling through Teleglobe, which provides the ability to call the United States from overseas as well as to make overseas calls from the US. In addition, Teleglobe was chosen by BellSouth Long Distance Inc. as the provider of its Home Country Direct services, starting in 1997. Selling opportunities to the RBOCs will significantly expand as these carriers obtain authorization from the FCC to provide long-distance/international services to customers within their local exchange serving areas.

In 1996, Teleglobe began its common carrier activities in the US, after being granted five licenses by the Federal Communications Commission (FCC). In July, Teleglobe USA obtained four licenses allowing it to resell international switched services and international private lines as well as provide simple resale services between the US and the United Kingdom, Sweden and other authorized points. In October, Teleglobe USA received a global facilities-based license, making it a full-fledged telecommunications carrier in the US market. This license permits Teleglobe USA to own and operate international cable and satellite transmission facilities between the United States and virtually every country in the world, other than Canada, and to enter into direct correspondent agreements with overseas carriers for the exchange of traffic.

Also in 1996, Teleglobe installed its first US international gateway switch. Located in New York City, the East Coast gateway became operational in July. It allows Teleglobe to interconnect with other US carriers as well as its own customers. This facility utilizes a high-capacity Nortel digital switch, supported by a state-of-the-art network management system located in Montréal, and sophisticated routing software which is used to select the least expensive route to a given destination. Teleglobe USA is planning to install additional gateways and customer access nodes in key cities in the United States.

Europe

At the end of 1996, Teleglobe International (UK) Limited was granted a facilities-based license which allows it to provide a full range of telecommunications services between the UK and the rest of the world, including switched voice services. This license is already in effect and will accelerate Teleglobe's expansion in the 8-billion-minute (bothway traffic) UK international market, the most liberalized in Europe. Teleglobe International (UK) Limited operates switching facilities and has offered international resale services in London since 1995, targeting emerging carriers such as cable operators, cellular and mobile network operators, as well as other resellers.

In Germany, where total two-way international traffic amounts to more than 9 billion minutes a year, Teleglobe was awarded a facilities-based license to provide liberalized services, including corporate networks, international private lines and Internet services. It will also offer authorized customers international long-distance and toll-free services. In early 1997, Teleglobe also received a switched-voice services license in Germany, which will take effect when this market opens to competition on January 1, 1998.

By 1998, the member nations of the European Union will have opened the public switched telephony sector to long-distance competition. The UK, Denmark, Sweden and Finland have already unilaterally liberalized their telecom markets, and others are expected to follow. Moreover, all services other than public switched voice may now be provided by new competitive carriers. Most newcomers are looking to team up with intercontinental

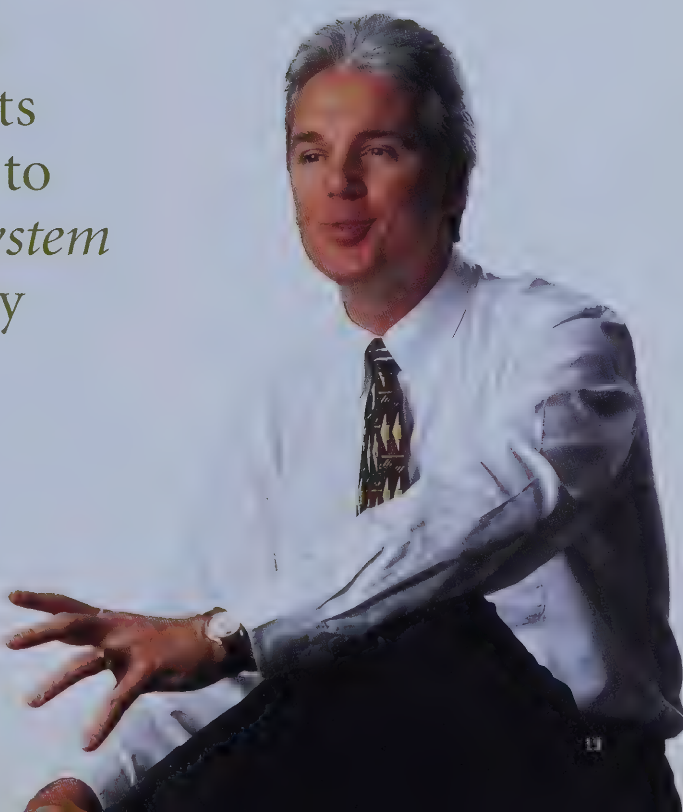
Teleglobe USA obtained four licenses allowing it to resell international switched services and international private lines, as well as a global facilities-based license, making it a full-fledged telecommunications carrier in the US market. Also in 1996, Teleglobe installed its first US gateway, which enables it to interconnect with its own customers and other US carriers.

carriers, and Teleglobe International is leveraging the Corporation's long-term business relationships in Europe to aggressively pursue growth opportunities with both emerging and traditional carriers from Teleglobe's sales offices in London, Frankfurt, Paris, Vienna and Moscow. In addition, Teleglobe International is planning to expand its European network and to further leverage *Globesystem Atlantic* for connectivity with North America.

Asia

Asian economies continue to develop at a rapid pace and this is reflected in traffic growth as well as in the demand for advanced applications. From its sales offices in Hong Kong, Singapore and Sydney, Teleglobe International is actively selling global connectivity services. Teleglobe Canada also maintains and establishes close bilateral relations with carriers in the region. The Corporation is particularly active in Malaysia, the Philippines, Pakistan and South Korea. Traffic from Asian customers routed on Teleglobe's network is growing steadily. Teleglobe International has filed an application for authority to provide international virtual private network services in Hong Kong and is planning to request licenses in other key Asian markets, in order to further tap their potential.

Teleglobe International is planning to expand its European network and to further leverage *Globesystem Atlantic* for connectivity with North America.



Timothy O'Connor
Director, Business Management
Teleglobe International Corporation

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Introducing new offerings that respond to market needs is a priority and one of the cornerstones of future growth. Teleglobe attracts customers from the rising number of emerging carriers around the world seeking global connectivity services, as well as among traditional domestic and regional operators, because it offers them a full range of traditional and state-of-the-art services.

services

Leading the way in new services

Combined with its global network, Teleglobe's long-standing business relations with numerous carriers and service providers and its well-established network of sales offices give the Corporation global marketing capabilities and place it in a privileged position to enable its customers to improve their own performance.

Teleglobe International takes advantage of business opportunities in a variety of markets. Aside from routing traffic on behalf of carriers and other telecom service providers, it can also implement offerings targeted at large business end users and package new services destined for specific segments of the consumer market. In addition, Teleglobe International is in a strong position to tap the burgeoning Internet market.

Nineteen hundred and ninety-six was marked by the development and launch of several new services. During the year, Teleglobe expanded its US domestic network capabilities to include switched access arrangements, which will allow it to introduce new offerings that target specialized consumer markets.

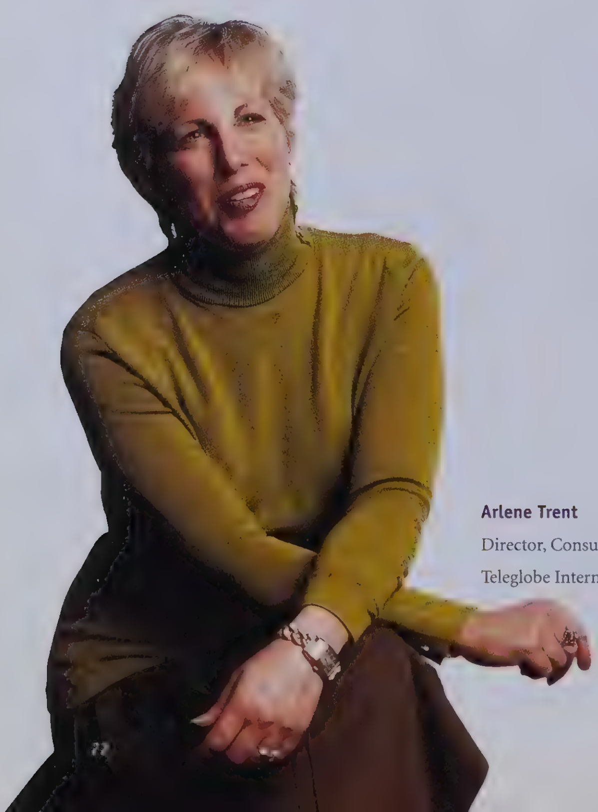
International Private Line (IPL) service allows the telecommunications networks of multiple corporate offices to be connected through dedicated digital point-to-point circuits. Customers can thus integrate a number of applications on a single, high-speed link, including voice, data, facsimile, messaging, Internet and videoconferencing. This offering targets multinational corporations with significant overseas traffic between their various locations. It is now available to more than 150 countries.

International Direct-Distance Dialing (IDDD) enables corporate customers with locations in the US and significant overseas voice traffic to place calls to the rest of the world—to any of 240 countries and territories—at highly competitive rates. This service features detailed, customized monthly billing and peak/off-peak pricing.

The **Inbound Collect** service allows an overseas caller to place a collect call to a telephone number in the US or other destination countries. It is being offered to overseas carriers that need to outsource all or part of their international collect calling business.

International Toll-Free Service (ITFS) is positioned as a premium service. It enables customers to receive toll-free calls from selected international locations. The call is billed directly to the company being called. This service can be used by telecommunications carriers, resellers and multinational corporations. Teleglobe enjoys several competitive advantages in the implementation and marketing of ITFS services.

Teleglobe International takes advantage of business opportunities in a variety of markets.



Arlene Trent
Director, Consumer Services
Teleglobe International Corporation

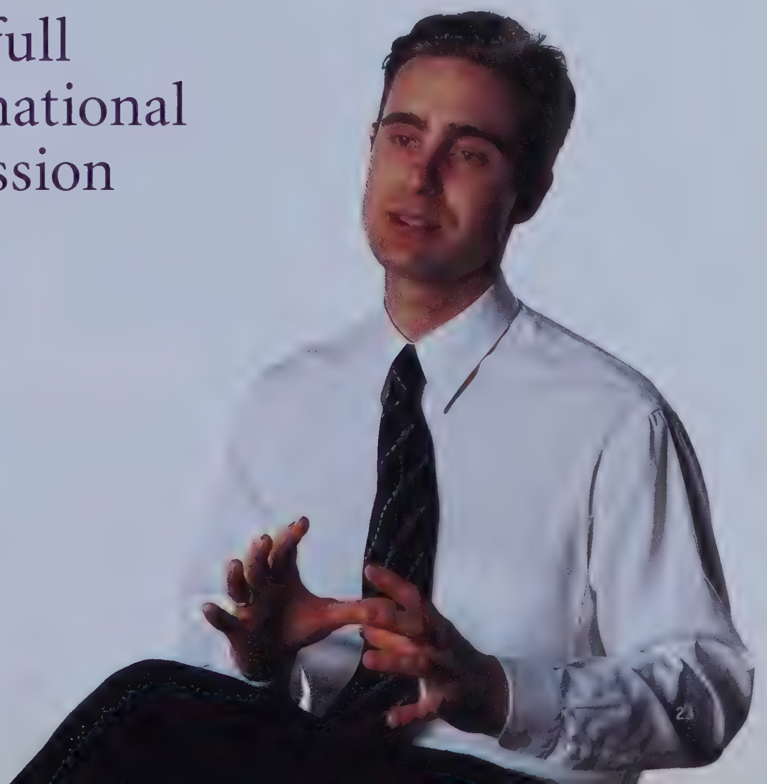
Teleglobe has become a **key Internet access provider** with the launch of *Globeinternet*, which allows Internet service providers to interconnect with host computers and servers in the US via its network. In 1996, Teleglobe signed several Internet access agreements with **overseas carriers**.

Targeted at telecommunications carriers worldwide, **Paid 800** is an inbound service that enables an overseas caller to access a North American toll-free number for traditional toll-free services, such as customer service inquiries or placing orders. The caller is not charged for the North American portion of the 800 call, but pays the foreign carrier the price of a regular international call. Teleglobe receives a settlement from the foreign carrier for routing the call.

Teleglobe is becoming a key Internet access provider. In late 1995, it launched *Globeinternet*™, which allows Internet service providers to interconnect with host computers and servers in the US via Teleglobe's network. *Globeinternet*'s advantages include greater availability, quicker access, competitive pricing and top-quality links. Teleglobe currently provides Internet service to more than 20 countries in Europe, the Middle East, Africa, the Asia-Pacific and Latin America. For example, in 1996, Teleglobe and Telecom Italia reached an agreement that allows the Italian carrier to interconnect with Teleglobe's network and utilize *Globeinternet* to improve access to the global information highway. This cooperation involves the deployment of a high-performance dedicated ring network between North America and Italy, and positions Teleglobe as the prime Internet hub network across the Atlantic.

Teleglobe offers a full spectrum of international broadcast transmission services. Its customers, which include the largest US-based television networks, have access to satellite earth stations that link with INTELSAT, PANAMSAT and INTERSPUTNIK. Moreover, they can access *Globesystem Atlantic*, which provides a fiber-optic link for transatlantic broadcasts. TV broadcast traffic increased by 34% during the year. Also in 1996, Teleglobe provided the first-ever international video feed over ATM (asynchronous transfer mode), between the United States and Germany, to Deutsche Telekom.

Teleglobe offers a full spectrum of international broadcast transmission services.



Stéphane Brisebois
Senior Specialist,
New Business Initiatives
Teleglobe Canada Inc.

up

front in the race for 10

TELEGLOBE HAS A HEAD START IN THE RACE TO DEPLOY NEXT-GENERATION GLOBAL SATELLITE SERVICES, AS DEMAND FOR WIRELESS COMMUNICATIONS CONTINUES TO GROW AT AN INCREDIBLE PACE. MOBILE SATELLITE SERVICES ARE AIMED AT ACCELERATING THE AVAILABILITY OF HIGH-QUALITY TELECOMMUNICATIONS INFRASTRUCTURE IN EMERGING COUNTRIES, AND AT EXTENDING EXISTING CELLULAR NETWORKS AND PROVIDING PERSONAL COMMUNICATIONS SERVICES (PCS) AROUND THE WORLD.

0%

global mobile coverage

Leading the way in global wireless satellite-based services

Demand for wireless communications continues to grow at an incredible pace. Part of the demand comes from vast regions of the globe that are not yet equipped with modern telecommunications infrastructure, where wireless will help speed up the deployment of traditional services.

Because of the relatively high cost involved, building cellular infrastructure is impractical in regions without sufficient critical mass to make such ventures profitable. By the end of the century, roughly 85% of the Earth's surface will still lack cellular coverage. Even in the US, some experts believe, at least half the territory will never be covered by traditional cellular networks. These market realities have prompted Teleglobe to become a major player in new-generation mobile satellite services. The latest technologies will make satellite communications affordable and "mobile" in the truest sense of the word.

ORBCOMM became the world's first fully financed non-geostationary satellite system in 1996.

Mobile satellite services are aimed at accelerating the availability of high-quality telecommunications infrastructure in emerging countries, and at extending existing cellular networks and providing personal communications services (PCS) around the world. Teleglobe is actively involved in two major projects that give it a head start in the race to deploy next-generation global satellite services. In both cases, the Corporation has teamed up with companies that have a solid track record in satellite design and construction.

ORBCOMM™

Following the successful launch and extensive testing of its first two satellites in 1995, the *ORBCOMM* system became the first low-Earth-orbit (LEO) satellite system of its kind to be available for commercial use when service was introduced in the US in February 1996. Once the full 28-satellite constellation is completed, the *ORBCOMM* system will provide real-time, low-cost two-way data and message communications between users with small portable terminals anywhere on Earth. It is a full-service offering that supports applications such as mobile asset tracking, remote industrial monitoring and control, environmental data collection and person-to-person or machine-to-machine communications.

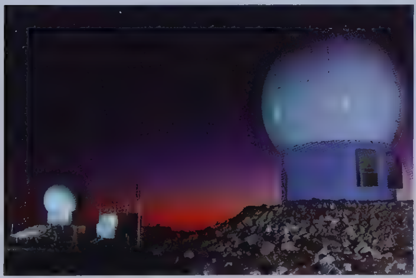
The *ORBCOMM* satellite system is rapidly being put in place. Four US earth stations are currently in operation and provide data communication services focused on monitoring applications. *ORBCOMM* is also signing agreements with resellers, each of which will be responsible for marketing to end users.

The spacecraft are being built by leading American satellite manufacturer Orbital Sciences Corporation. Four US earth stations are currently in operation and provide data communication services focused on monitoring applications. As at September 30, 1996, the *ORBCOMM* system had transmitted in excess of one million messages and completed extensive internal and third-party testing.

In addition, *ORBCOMM* became the world's first fully financed non-geostationary satellite system in 1996, when ORBCOMM Global, L.P. completed a financing involving the issuance and sale to institutional investors of US$170 million in non-recourse senior notes. Upon closing of the financing, co-sponsors Orbital Sciences Corporation and Teleglobe Mobile Partners contributed the balance of their capital commitments for an aggregate total equity investment of approximately US$160 million. ORBCOMM Global, L.P. is a limited partnership of Teleglobe Mobile Partners—itself a joint venture between Teleglobe Inc. and Technology Resources Industries Bhd. of Malaysia—and Orbital Communications Corporation, a subsidiary of Orbital Sciences Corporation.

ORBCOMM services will be distributed in the US through resellers, which will be responsible for marketing to end users in specific industries or market segments, and in the rest of the world through international licensees, which will each be granted exclusivity for a given geographic region. Typically, a licensee will be responsible for, among other things, procuring and installing a gateway, obtaining all regulatory approvals, as well as marketing and providing the services in its territory. As at December 31, 1996, ORBCOMM Global, L.P., through its affiliates, had signed 29 reseller agreements and 6 service license agreements, including one with ORBCOMM Canada Inc. It is also currently pursuing discussions with approximately 25 prospective licensees. Moreover, ORBCOMM Canada was granted an operating license by the Government of Canada in 1996 and will launch commercial service in 1997.

Manufacturing an *ORBCOMM* satellite



One of the *ORBCOMM* earth stations

Odyssey will provide worldwide voice, fax and messaging services via a network of 12 medium-Earth-orbit satellites and 7 earth stations.

Odyssey™

In late 1994, Teleglobe and US satellite builder TRW Inc. formed a joint venture to construct and operate a global personal communications system (PCS) known as *Odyssey*. Developed by TRW, this system will provide worldwide voice, fax and messaging services via a network of 12 medium-Earth-orbit (MEO) satellites and 7 earth stations. Dual-mode handheld terminals and easy-to-install fixed terminals will allow users to link up to terrestrial cellular networks where available.

Teleglobe World Mobility and TRW are working to arrange the financing for the project, consisting of equity and debt. The total estimated cost is US$3.2 billion, including earth stations, satellites, software and launches. As in the case of *ORBCOMM*, *Odyssey* services will be marketed by licensed distributors.

Odyssey's technology, which has been patented by TRW, offers many advantages in terms of reducing the cost of system design and operations. *Odyssey* will require fewer satellites and earth stations than most competing systems. In addition, its satellites are less complex, have a longer design life and will offer a higher quality of service.

INMARSAT services

Teleglobe also provides mobile satellite services through the International Maritime Satellite Organization (INMARSAT) infrastructure. In 1996, Teleglobe signed an agreement with Newfoundland-based NewEast Wireless Technologies Inc. (NewEast), a leader in the provision and marketing of satellite communications equipment and services. In exchange for a 30% stake in NewEast, Teleglobe sold the Newfoundland firm its interest in IDB Mobile Communications, Inc. and also outsourced part of its INMARSAT activities to NewEast. Centralizing products and services in one company makes it possible to provide customers with complete end-to-end capability and thus maximize the value of the offerings.

Insurance Systems Division

The Insurance Systems Division, with operations in the United States, Canada and Europe, designs and markets data-processing products and services destined for the general insurance industry. Its activities, which include the development of specialized software as well as process automation and outsourcing, are all geared to helping insurance companies and brokers lower their operating costs, improve their services and increase their profit margins.

Revenues totaled $151.5 million in 1996, compared with $152.4 million in 1995. Income from operations was $5.5 million, compared with $19.3 million in 1995. The division's processing revenues increased in 1996, while its software license revenues decreased because of delays in the availability of certain products.

The division signed several business agreements, notably for the acquisition of exclusive US marketing rights to a modern client/server-based Personal Lines Insurance System, which is now integrated with its outsourcing services. There was also a multi-million-dollar agreement with Allianz, of Germany, for support of facilities in Eastern Europe and South America and development of a core system to be deployed internationally.

In Canada, the division became the leader in its field when it acquired Québec City-based Veilleux informatique inc., a leader in the electronic data interchange (EDI) industry serving some 300 brokers in Québec.

The division has broadened its main R&D activities to make *Assure 2000*™ a North American initiative. *Assure 2000* is the division's new applications architecture that calls for the adaptation and integration of its software assets as well as the implementation of advanced insurance concepts in a modern technological environment.

Manage

Operating revenues

Operating revenues from telecommunications services rose by $39.1 million or 6.9% in 1996 over 1995 and by $65.1 million or 13.0% in 1995 over 1994. This reflects an increase in the global overseas traffic carried by Teleglobe, which quadrupled in 1996. During the past year, Teleglobe Canada Inc. (TCI) ceased to be regulated on a rate-of-return basis when this regime was replaced by a price-cap formula. As a result, TCI no longer accounts for foreign exchange fluctuations through the Rate Stabilization Account (RSA). Through the RSA, such fluctuations had negative impacts on revenues of $6.9 million in 1995 and $9.0 million in 1994.

Sales of the Insurance Systems Division remained at the same level as in 1995. This division generated revenues of $151.5 million in 1996, compared with $152.4 million in 1995, which in turn represented a 7.9% increase over 1994 results.

ment's discussion and analysis

Income from operations

Income from operations before unusual items was $219.5 million in 1996 compared with $176.5 million in 1995 (an increase of 24.4%) and $151.8 million in 1994. Operating expenses decreased by 1.0% in 1996, whereas they had gone up by 10.5% in 1995 and 16.6% in 1994. They represented 71.0% of operating revenues in 1996, down from 1995 and 1994 levels of 75.5% and 76.4%, respectively. This constitutes a productivity gain considering that most of the revenues were derived from the telecommunications services sector, where rates have been decreasing for years. The lower proportion of operating expenses to operating revenues stemmed from a more efficient use of the international network as a result of the greater traffic volume generated by the global connectivity business. The Corporation's goal is to continue improving its network efficiency and productivity in the future.

Unusual items

In 1995, the Corporation realized a gain on dilution of $19.8 million when the Malaysian firm Technology Resources Industries Berhad (TRI) acquired a 30% interest in Teleglobe Mobile Partners (TMP) at a cost of $59.5 million. TMP holds the Corporation's investment in the *ORBCOMM*™ project.

That same year, following a review of its investment in IDB Mobile Communications, Inc. (IDB Mobile), the Corporation decided to write down the assets of the business by $16.2 million to reflect their estimated net recoverable value.

In 1994, TCI completed an organizational review and subsequently launched a program aimed at improving efficiency and containing costs. A provision of $8.5 million was recorded at that time for severance and related expenses.

Financial charges

Financial charges totaled $34.5 million in 1996 against $35.5 million in 1995 and $15.7 million in 1994. The Corporation has retroactively modified the accounting treatment of its second series preferred shares to comply with the new recommendations issued by the Canadian Institute of Chartered Accountants (CICA) as regards the disclosure of financial instruments. Under the new recommendations, these shares constitute compound financial instruments, comprising a liability component and an equity component. Consequently, the dividends and other charges related to these shares have been included in financial charges retroactive to 1991.

The Corporation slightly increased its debt level in 1996 and 1995 from previous years when share issues were used to raise funds. However, the higher net financial charges compared with 1994 were mainly due to the fact that the completion of major capital projects at the end of 1994 resulted in lower capital expenditures as of 1995 and in a corresponding decrease in the cost of funds being capitalized. As TCI is no longer a rate-regulated entity for reporting purposes, no allowance for funds used during construction was calculated during the past year. Instead, the Corporation recorded capitalized interest for actual interest costs incurred in the construction of fixed assets.

Income taxes

The effective income tax rate for the Corporation was 39.2% in 1996 compared with 38.2% in 1995 and 33.7% in 1994. This reflects the decrease in capital expenditures, which resulted in a correspondingly smaller allowance for funds used during construction in 1995, and in lower capitalized interest levels in both 1995 and 1996. A detailed reconciliation is provided in Note 7 to the financial statements.

Net income

Net income for 1996 was $112.5 million, or $1.68 per share on a fully diluted basis. Net income was $89.4 million or $1.31 per share in 1995, and $84.6 million or $1.25 per share in 1994.

Business unit commentary

The following business unit commentary is based on segmented information contained in Note 24 to the financial statements.

Telecommunications services – Teleglobe Canada Inc.

1996 compared with 1995

Revenues rose by 14.8% to $1,509.2 million in 1996 from $1,314.7 million in 1995. This was primarily due to a 22.8% increase in traffic, which was partially offset by reductions in the access rates charged to Canadian carriers and in the accounting rates paid by foreign administrations for telephone traffic originating overseas.

The carriers' share of revenues went up by 16.4% in 1996. This reflects the increase in traffic, although the latter was partially offset by the lower accounting rates paid to foreign administrations for outgoing traffic and by a decrease in settlement rates paid to Canadian carriers for incoming calls. The growth in total revenues was slightly lower than that of the carriers' share, as TCI's unit margin on global traffic decreased in 1996 while this type of traffic increased by 241%. TCI no longer uses the RSA since it began in 1996 to account for foreign currency fluctuations in accordance with generally accepted accounting principles (GAAP) for non-rate-regulated entities. Thus there was no RSA amortization in 1996, whereas a loss of $6.9 million was recorded in 1995.

Overall, operating revenues increased by 13.7% to $543.4 million in 1996 from $478.0 million the previous year, mainly due to the higher global traffic volume.

Operating expenses rose by 7.9% to $346.7 million from $321.2 million in 1995, mainly due to the fees paid to Teleglobe International Corporation in 1996 for the marketing, sale and management of services on the global market as well as to maintenance, restoration and repair costs related to *CANTAT 3*™ cable outages. These costs were partially offset by a $7.8 million reduction in depreciation expense, reflecting the lower capital expenditures.

Income from operations increased by 25.4% to $196.7 million from $156.8 million in 1995, reflecting the rapid growth in global traffic. In 1996, TCI became subject to a new form of regulation based on a price-cap formula whereby it must lower its prices by a minimum percentage each year. (See Note 1 to the financial statements for further details.) Thus far, TCI has exceeded the price reductions set by the Canadian Radio-television and Telecommunications Commission (CRTC).

1995 compared with 1994

Revenues increased by 3.0% to $1,314.7 million in 1995 from $1,276.6 million in 1994. This modest growth rate was primarily the result of reductions in the access rates charged to Canadian carriers and in the accounting rates paid by foreign administrations for telephone traffic originating overseas. The rate decreases were offset by a 9.9% rise in the volume of telephone traffic over 1994.

The carriers' share of revenues declined by 2.8% in 1995. This reflected the negotiation of lower accounting rates and correspondingly lower outpayments to foreign administrations for outgoing traffic, as well as a decrease in settlement rates paid to Canadian carriers for incoming calls. Foreign exchange fluctuations with respect to the budgeted rates used to record revenues translated into a loss of $6.9 million in 1995 compared with a loss of $9.0 million in 1994.

Overall, operating revenues increased by 15.6% to $478.0 million in 1995 from $413.6 million the previous year, mainly due to the higher traffic volume generated by telephone and other services.

Operating expenses went up by 12.1% to $321.2 million from $286.5 million in 1994. This increase was partly attributable to a $15.2 million rise in depreciation expenses reflecting the first full year of depreciation of the *CANTAT 3* cable and the Corporation's investment in its Head Office building, as well as accelerated depreciation taken on some telecommunications equipment, submarine cables and operating facilities.

The rise in operating expenses also stemmed from a $17.5 million increase in network and marketing expenses. On the network side, the introduction of *CANTAT 3* at the end of 1994 pushed maintenance costs upwards, while various cable breaks occurred in 1995, resulting in higher repair costs and additional circuit rental expenses. Marketing expenses were up due to increased advertising and promotional activities in 1995.

Income from operations totaled $156.8 million in 1995 compared with $118.6 million in 1994.

Telecommunications services – Other

Teleglobe International

1996 compared with 1995

Teleglobe International (TI) had operating revenues of $14.9 million in 1996 compared with $14.1 million in 1995. The increase was attributable to the growth in commissioned audio traffic from second-tier international carriers and to the fact that Teleglobe USA, a wholly owned subsidiary of Teleglobe International Corporation, began operating as a reseller and facilities-based carrier of international traffic in the fourth quarter. The rise in traffic was partially offset by the completion of fewer turnkey projects.

Costs and operating expenses decreased by $9.2 million in 1996 from 1995, mainly due to lower costs associated with turnkey projects and the start-up of the US office which, in 1996, devoted more of its efforts to the generation of global traffic for TCI.

Income from operations was $8.1 million in 1996 compared with a loss of $1.9 million in 1995.

1995 compared with 1994

TI had revenues of $14.1 million in 1995 compared with $10.9 million in 1994. The increase was attributable to the growth in commissioned audio traffic from second-tier international carriers as well as to the realization and completion of various turnkey projects.

Costs and operating expenses increased by $10.9 million in 1995, mainly due to the costs associated with the start-up of Teleglobe USA and the turnkey projects.

TI reported a loss from operations of $1.9 million in 1995 compared with a $5.8 million profit in 1994.

Teleglobe World Mobility

The results posted by this unit reflect the activities of US-based IDB Mobile for the first ten months of 1996, after which time it was sold to NewEast Wireless Technologies Inc. (NewEast), as well as the Corporation's investment in *ORBCOMM* and *Odyssey*™.

1996 compared with 1995

Teleglobe World Mobility (TWM) revenues amounted to $19.0 million in 1996 compared with $25.2 million in 1995. The decrease was attributable to the fact that IDB Mobile results cover only ten months of operation versus a full year in 1995, as well as to lower selling prices and traffic volume for IDB Mobile, combined with changes in its traffic mix.

Costs and operating expenses were $18.2 million compared with $31.4 million in 1995. This was due to a number of factors: IDB Mobile's shorter operating period in 1996, reductions in space segment utilization charges (SSUCs) negotiated with COMSAT and implemented in the second half of 1995, lower traffic volume, and lower depreciation expense following the write-down of assets in 1995.

Income from operations before unusual items was $0.8 million in 1996 against a loss of $6.2 million in 1995.

1995 compared with 1994

TWM revenues amounted to $25.2 million in 1995 compared with $28.8 million in 1994. The decrease was attributable to lower rates, a slight decline in traffic volume and changes in traffic mix, all relating to IDB Mobile's operations.

Costs and operating expenses were down $4.8 million over 1994. This was due to reductions in SSUCs negotiated with COMSAT, which went into effect in July and November, and to a drop in selling and administrative expenses following the implementation of a cost-cutting program. These gains were partially offset by a $1.0 million loss on the disposal of a business segment which had never generated earnings or cash since its acquisition in 1992.

The loss from operations before unusual items was $6.2 million in 1995 against $7.0 million in 1994. As regards unusual items, the Corporation realized a gain on dilution of $19.8 million when TRI, a Malaysian public company operating the largest cellular network in that country, invested $59.5 million in Teleglobe Mobile Partners, the indirect subsidiary that holds Teleglobe's investment in *ORBCOMM*. This gain was offset by a $16.2 million write-down of IDB Mobile's assets to better reflect their net recoverable value, such that the Corporation recorded a net gain on unusual items of $3.6 million.

Teleglobe Marine

1996 compared with 1995

Teleglobe Marine (TMI) revenues totaled $28.5 million in 1996 compared with $49.6 million in 1995. This reflects the sale of the *C.S. John Cabot* in April 1996 and the vessel's inactivity in the first quarter, whereas it was active throughout 1995 on major contracts.

Costs and operating expenses were down $19.2 million for the same reasons.

Income from operations declined to $20.8 million from $22.6 million in 1995.

1995 compared with 1994

TMI revenues totaled $49.6 million in 1995 compared with $44.1 million in 1994. This growth reflected the full-year impact of activities of the cable ship *C.S. John Cabot* that did not relate to the Atlantic Cable Maintenance and Repair Agreement (ACMA).

Costs and operating expenses were up $3.5 million as a result of costs incurred to generate the additional revenues.

Income from operations rose to $22.6 million from $20.7 million in 1994.

Insurance Systems

1996 compared with 1995

Revenues were $151.5 million, comparable to the 1995 level of $152.4 million. However, the mix was different from last year: information services revenues were up $4.3 million over 1995, whereas software/services and processing revenues were down $3.6 million and $1.6 million, respectively.

Costs and operating expenses amounted to $146.0 million in 1996, up 9.6% from $133.1 million in 1995. The increase was attributable to the reorganization of the data center, accelerated depreciation of some information systems in the US and, to a lesser extent, the rise in labor and R&D costs incurred by the Canadian operations to support the information services business.

In 1996, the Insurance Systems Division posted income from operations of $5.5 million compared with $19.3 million in 1995.

1995 compared with 1994

Revenues increased by $11.2 million to $152.4 million in 1995. The US segment's revenues rose by $4.8 million, chiefly due to outsourcing and processing services as well as software license sales, while the Canadian segment's revenues were up $6.4 million, largely thanks to motor vehicle information services.

Costs and operating expenses amounted to $133.1 million in 1995, up 7.5% from $123.8 million in 1994. The increase was entirely attributable to direct costs associated with the additional sales, the main factors being extra labor required to generate the outsourcing revenues and higher costs in the information services sector.

In 1995, the Insurance Systems Division posted income from operations of $19.3 million compared with $17.4 million in 1994.

LIQUIDITY AND CAPITAL RESOURCES

Operations

Cash from operations before changes in non-cash operating balances was $291.8 million in 1996 compared with $278.8 million in 1995. Net changes in non-cash operating balances decreased cash by $64.8 million in 1996 versus a decrease of $2.3 million in 1995, reflecting larger accounts receivable associated with the increased revenues generated during the past year. For the same reason, the Corporation had a positive working capital position of $319.4 million as at December 31, 1996, compared with a positive position of $255.7 million a year earlier.

Investment

Capital expenditures totaled $127.4 million in 1996 compared with $158.5 million the previous year and were incurred mainly by the telecommunications group. Investment activity in 1996 mostly revolved around portfolio investments of $28.7 million in US government securities made by ORBCOMM Global, L.P. to provide for payment in full of interest on the senior notes issued during the year. Investments in other assets decreased to $76.6 million from $87.1 million in 1995 as a result of lower payments related to a long-term lease contract with Stentor regarding capacity in the Eastern Ring Network and the Central Corridor. Proceeds from the disposal of property, plant and equipment were $31.4 million in 1996 compared with $31.3 million in 1995 and derived mainly from the reassignment or sale of rights in submarine cables and in INMARSAT and INTELSAT assets.

The Corporation sold its 50% interest in IDB Mobile to NewEast, in which it acquired a 30% stake through a subsidiary.

Debt structure

In 1996, TCI completed a $100 million debenture financing and reimbursed promissory notes as well as a construction loan. ORBCOMM Global, L.P. issued US$170 million in senior notes, of which 50% was recognized in financing activities.

Equity structure

The Corporation used its excess cash to repurchase $21.1 million in common shares under a normal course issuer bid announced in October 1996.

In 1996, the CICA published new accounting recommendations related to financial instruments. Under these recommendations, the second series preferred shares issued by the Corporation in 1991 constitute compound financial instruments. Consequently, the major portion of the issue, $70.5 million, has been reclassified as long-term debt, with $4.5 million remaining as an equity component. These recommendations were applied retroactive to the share issue date.

Dividends

Dividend payments amounted to $33.5 million in 1996 compared with $29.4 million in 1995 and $24.6 million in 1994. The higher 1996 figure was due to an increase in quarterly dividends from $0.10 to $0.12 effective in the second quarter of 1996. The rise in 1995 stemmed from an increase in the quarterly dividends from $0.09 to $0.10 effective in the second quarter of 1995 and to the full-year impact of the third series preferred shares issued in March 1994.

As the second series preferred shares have been reclassified as long-term debt, the annual dividends of $2.00/share have been reclassified as financial charges in the income statement, retroactive to 1991.

Commitments

At the end of 1996, the Corporation had made capital expenditure commitments of approximately $45.1 million, primarily to allow the telecommunications group to meet the demand for existing and new services. The Corporation has in place the financing it needs to meet any short-term requirements and has the capabilities to raise additional funds in the capital markets whenever necessary.

The Corporation has a policy of hedging against currency fluctuations. Various financial instruments are used to hedge projected revenues denominated in foreign currencies. In 1996, forward exchange contracts were purchased to cover most 1997 revenues budgeted in foreign currencies. (See Note 21 to the financial statements – Financial instruments.)

Outlook

The Corporation expects to maintain a level of capital expenditures comparable to that in 1996. For the balance of 1997, the Corporation plans to meet its cash requirements through cash flow generated by operations and its revolving credit facilities.

Management's Report

The management of the Corporation is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

To fulfill its responsibility, management developed and maintains systems of internal accounting controls and establishes policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by internal auditors and by the external auditors during the examination of the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the internal and external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external and internal auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Charles Sirois
Chairman of the Board and Chief Executive Officer

Claude Séguin
Executive Vice-President, Finance
and Corporate Development and
Chief Financial Officer

February 12, 1997

Auditors' Report
To the Shareholders of Teleglobe Inc.

We have audited the consolidated balance sheets of Teleglobe Inc. as at December 31, 1996 and 1995 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1996 in accordance with generally accepted accounting principles in Canada.

Raymond, Chabot, Martin, Paré
General Partnership
Chartered Accountants
Montréal, Québec
February 12, 1997

Consolidated Income

For the years ended December 31

(in millions of Canadian dollars except per share amounts)	1996	1995	1994
Revenues (Note 3)	$ 1,714.2	$ 1,550.7	$ 1,506.0
Operating revenues			
Telecommunications services	$ 606.0	$ 566.9	$ 501.8
Insurance Systems	151.5	152.4	141.2
	757.5	719.3	643.0
Operating expenses	538.0	542.8	491.2
Income from operations before unusual items	219.5	176.5	151.8
Unusual items (Note 5)	–	(3.6)	8.5
Income from operations	219.5	180.1	143.3
Financial charges (Note 6)	34.5	35.5	15.7
Income before income taxes	185.0	144.6	127.6
Income taxes (Note 7)	72.5	55.2	43.0
Net income	112.5	89.4	84.6
Preferred dividends	6.8	6.8	5.4
Net income to common shareholders	$ 105.7	$ 82.6	$ 79.2
Earnings per share – Basic (Note 16)	$ 1.81	$ 1.41	$ 1.36

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Retained Earnings

For the years ended December 31

(in millions of Canadian dollars)	1996	1995	1994
Retained earnings, beginning of year	$ 182.5	$ 122.9	$ 67.6
Net income	112.5	89.4	84.6
	295.0	212.3	152.2
Dividends	33.5	29.5	25.7
Share issue costs	–	–	3.3
Excess of redeemable price of common shares over the stated value	15.8	–	–
Taxes related to dividends on preferred shares	0.3	0.3	0.3
	49.6	29.8	29.3
Retained earnings, end of year	$ 245.4	$ 182.5	$ 122.9

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at December 31 (in millions of Canadian dollars)	1996	1995
Assets		
Current		
Cash and short-term deposits	$ 160.2	$ 81.3
Accounts receivable (Note 8)	434.7	321.0
Inventories (Note 9)	224.6	236.8
Prepaid expenses and other	35.1	25.3
	854.6	664.4
Investments (Note 10)	53.9	10.5
Loan receivable (Note 11)	26.4	30.2
Property, plant and equipment (Note 12)	1,096.8	1,136.9
Goodwill	141.6	137.1
Deferred charges and other (Note 13)	137.1	101.2
	$ 2,310.4	$ 2,080.3
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 423.0	$ 384.0
Income taxes payable	27.8	12.9
Dividend payable	3.2	3.2
Current portion of long-term debt (Note 14)	81.2	8.6
	535.2	408.7
Long-term debt (Note 14)	717.3	675.4
Deferred credits (Note 15)	79.1	82.8
Non-controlling interest	39.6	39.9
	1,371.2	1,206.8
Shareholders' equity		
Capital stock (Note 16)		
Preferred shares	147.5	147.5
Common shares	540.8	542.8
	688.3	690.3
Retained earnings	245.4	182.5
Cumulative translation adjustment	5.5	0.7
	939.2	873.5
	$ 2,310.4	$ 2,080.3

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Pierre MacDonald

Director

Director

Consolidated Changes in Financial Position

For the years ended December 31 (in millions of Canadian dollars)	1996	1995	1994
Operating activities:			
Net income	$ 112.5	$ 89.4	$ 84.6
Non-cash items:			
Depreciation of property, plant and equipment	135.2	141.6	119.4
Amortization and write-down of assets	45.4	53.2	24.0
Equity in earnings of companies subject to significant influence	1.4	–	–
Gain on dilution	–	(19.8)	–
Allowance for funds used during construction	–	(3.1)	(18.6)
Rate stabilization account	–	11.9	(1.2)
Deferred credits and other	(2.7)	5.6	2.9
	291.8	278.8	211.1
Changes in non-cash operating balances (Note 19)	(64.8)	(2.3)	(61.7)
Cash provided by operating activities	227.0	276.5	149.4
Investing activities:			
Acquisition of property, plant and equipment	(127.4)	(158.5)	(228.9)
Proceeds on disposal of property, plant and equipment	31.4	31.3	13.9
Net increase in investments	(44.7)	(9.2)	–
Other assets	(76.6)	(87.1)	(41.3)
Proceeds from sale of businesses	7.4	–	70.9
Cash applied to investing activities	(209.9)	(223.5)	(185.4)
Financing activities:			
Issue of shares, net of issue costs			
Common	2.8	1.5	0.5
Preferred	–	–	121.7
Repurchase of common shares	(21.1)	–	–
Issue of long-term debt	245.9	97.9	93.8
Repayment of long-term debt	(132.0)	(79.7)	(149.7)
Non-controlling interest	–	23.8	–
Other	(0.3)	(0.3)	(0.3)
Cash provided by financing activities	95.3	43.2	66.0
Dividends	(33.5)	(29.4)	(24.6)
Increase in cash	78.9	66.8	5.4
Cash, beginning of year	81.3	14.5	9.1
Cash, end of year	$ 160.2	$ 81.3	$ 14.5

Cash represents cash and short-term deposits.

The accompanying notes are an integral part of the consolidated financial statements.

December 31, 1996
(in millions of Canadian dollars except per share amounts)

1. Statutes, nature of operations and regulatory regime

Statutes and nature of operations

Teleglobe Inc. (the Corporation) is incorporated under the *Canada Business Corporations Act*. The Corporation carries on the businesses of providing international telecommunications services as well as supplying computer systems and information services to the insurance industry.

Substantially all revenues are earned from international public services, mainly telephone, provided through Teleglobe Canada Inc. (TCI)'s telecommunications network; they consist of access charges to domestic carriers for the routing of traffic to foreign countries, and settlements from foreign carriers for the routing of traffic to Canada. Also included are other service revenues, derived primarily from global overseas services to foreign carriers, circuits leased to private users as well as broadcast and mobile services. The carriers' share of revenues represents the amounts paid to carriers to compensate them for their part in the collection and distribution of telecommunications traffic in Canada and outside Canada, respectively.

In 1995, the Government of Canada initiated a public consultation process as part of a review of TCI's exclusive mandate to provide facilities-based services between Canada and overseas countries. In 1992, TCI's mandate, which it had obtained in 1987, was extended until 1997. TCI now favors the liberalization of the Canadian international telecommunications market provided the necessary legislative and regulatory parameters needed to foster fair and sustainable competition can be entrenched. TCI is unable to predict the outcome of the current consultation and has no assurance as to the potential reform of the regulation governing its industry segment.

In 1993, TCI restructured its overseas message toll service and entered into an agreement with Stentor Canadian Network Management (Stentor) to define the terms and conditions for the connection of their respective networks to provide and expand international services. The agreement is for a 10-year term subject to earlier termination if the *Globeaccess*™ rates result in inappropriate commercial conditions for Stentor with particular regard to price competitiveness relative to comparable arrangements, as confirmed by a third-party audit. Under this agreement, the member telecommunications companies route all of their traffic to foreign countries, excluding the United States, over TCI's network. TCI has entered into similar agreements with other domestic carriers. Approval of the Stentor agreement by the Canadian Radio-television and Telecommunications Commission (CRTC) is valid for a period of one year following the end of TCI's exclusive mandate. Unless the CRTC awards a further approval or an extension of the current approval, beyond that current period, the agreement will no longer be binding and the two parties will be required to use their best efforts to reach agreement as early as possible on terms and conditions in accordance with the spirit of the original agreement and any relevant legal, regulatory or government ruling.

Regulatory regime

TCI is subject to regulation by the CRTC.

On February 2, 1996, TCI obtained a CRTC decision concerning the proposed changes to the regulatory framework which had been requested by TCI. The main features of the revised framework included the replacement of the rate-base/rate-of-return regulation by a form of price regulation which includes a price reduction commitment regime for telephone services and a price ceiling for non-telephone services for the period extending from April 1, 1996 to December 31, 1999, barring exceptional changes to TCI's operating environment including any significant changes resulting from the federal government's review of TCI's sole provider status. The revised framework also provided for continued tariff filing, approval procedures and financial monitoring.

Furthermore, the CRTC stated that it did not have the jurisdiction to grant TCI's application for forbearance from regulation for non-Canadian traffic as such traffic is not subject to the *Telecommunications Act* and therefore not subject to CRTC regulation.

2. Significant accounting policies

Financial statement presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They include the accounts of the Corporation and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

TCI, the Corporation's regulated telecommunications subsidiary, is the designated Canadian signatory to the International Telecommunications Satellite Organization (INTELSAT) and the International Maritime Satellite Organization (INMARSAT) operating agreements. Periodically, TCI's ownership in these organizations is adjusted to conform to its proportional use of the systems or such other level as it may elect, according to the terms of the respective operating agreements. TCI's share in these foreign joint ventures is accounted for on a proportionate consolidation basis.

TCI's interest in NewEast Wireless Technologies Inc. (NewEast), a company subject to significant influence, is accounted for using the equity method. The investment is recorded at cost, net of dividends received in excess of its share of post-acquisition income.

TCI holds a 30% interest in an office building. This joint venture interest is accounted for on a proportionate consolidation basis.

Participation in cable ships by Teleglobe Marine (TMI) is through limited partnership agreements. TMI's share of the partnerships is accounted for on a proportionate consolidation basis. TMI holds a 20.6% interest in McDermott Submarine Cable Systems Limited (McDermott). The investment is accounted for at equity value.

2. Significant accounting policies (continued)

The Corporation holds a joint control interest, through Teleglobe Mobile Partners (TMP)—a US General Partnership—in ORBCOMM Global, L.P., a joint venture formed with Orbital Sciences Corporation. The joint venture interest is accounted for on a proportionate consolidation basis.

All other investments are accounted for using the cost method.

Regulatory principles

As a result of the CRTC's decision concerning the change in its regulatory framework, TCI revised its accounting principles relating to regulation and, on May 15, 1996, filed a proposal with the CRTC to amend its accounting policies. TCI argued that under the new regulatory framework based on a price ceiling, it was no longer a rate-regulated entity for financial reporting purposes and should therefore be subject to generally accepted accounting principles for non-rate-regulated enterprises. TCI also argued that the changes made did not constitute changes in accounting policies to be applied retroactively and therefore applied the changes relating to the allowance for funds used during construction, deferred income taxes and the rate stabilization account prospectively as of January 1, 1996.

On January 17, 1997, the CRTC rendered a favorable decision with respect to TCI's requested changes to accounting policies.

Prior to 1996, the CRTC required that TCI provide for a return on capital invested in property, plant and equipment being constructed by including an allowance for funds used during construction. This allowance, net of related depreciation, was recognized as a permanent difference in accounting for income taxes. Moreover, TCI annually adjusted its deferred income tax liability to reflect expected changes in statutory income tax rates. The impact of such rate changes was recorded in the tax liability for the year. TCI had also established a rate stabilization account to reduce the impact of foreign currency fluctuations and help stabilize collection rates.

Change in accounting policy – Financial instruments

In accordance with the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning the disclosure of financial instruments, the Corporation changed its accounting policy regarding its second series preferred shares. According to this new accounting policy, the equity component representing the option to convert the principal of the second series preferred shares into common shares was presented in shareholders' equity. The equity component has been measured at its fair value at the time the second series preferred shares were originally issued. The remaining balance, representing the financial liability component, is presented as long-term debt.

This new accounting policy, which was adopted as of January 1, 1996, was applied retroactively and the comparative financial statements were restated to reflect this change. The application of these recommendations had no significant impact on the earnings per share of previous years.

Revenues

Telecommunications services

In applying terms and conditions for revenue sharing with other carriers, the Corporation recognizes the revenues from and shares owed to domestic and foreign carriers as services are rendered and estimates the amount of such revenues and shares which the domestic and foreign carriers have not reported at year end.

Revenues from other telecommunications services are recognized as the services are provided.

Revenues from cable ship interests consist of a return on capital and recovery of depreciation expenses while the remaining standing and running costs are reimbursed, all under the terms of cable maintenance and repair agreements.

Revenues from the sale of cable capacity are recognized using the venture accounting method, whereby all costs and revenues of the project are recorded in inventory until the total project is completed, at which time the accumulated balance will be reflected in income.

Other services and product sales

Revenues from computer systems and related services are recognized as the services are rendered, and from software licensing and hardware sales as the products are shipped.

2. Significant accounting policies (continued)

Foreign currency translation

Foreign currency denominated balances of the Corporation as well as assets and liabilities of foreign subsidiaries that are considered to be fully integrated operations are translated into Canadian dollars on the following basis:

- Monetary assets and liabilities are translated using the exchange rates in effect at the balance sheet date;
- Revenues and expenses and non-monetary assets and liabilities are translated at the average rates of exchange prevailing at the time the transactions occurred or at the rates of exchange prevailing when the assets were acquired or the liabilities incurred;
- Exchange gains or losses on monetary items are included in income. Also, unrealized foreign exchange gains or losses relating to monetary items with fixed or ascertainable lives extending beyond one year from the balance sheet date are deferred and amortized over the remaining period.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars as follows:

- Assets and liabilities, using the exchange rates in effect at the balance sheet date;
- Revenues and expenses, at average exchange rates prevailing at the time the transactions occurred;
- Unrealized exchange gains or losses on the translation of the financial statements are deferred and presented separately on the balance sheet under shareholders' equity.

On January 1, 1996, TCI changed the method of translating the financial statements of its foreign joint ventures from the temporal method to the current rate method. This change has been applied prospectively.

Derivative financial instruments

The Corporation uses various derivative financial instruments such as forward exchange contracts and put and call options to reduce as much as possible its foreign exchange risk and to hedge monetary items and foreign currency revenues and expenses.

Monetary items hedged by forward exchange contracts are translated using the exchange rates established by the terms of the contracts while those hedged by put and call options are translated at the contract exercise price. Premiums paid or received pursuant to exchange contracts are deferred and amortized over the term of the contracts. Forward exchange contracts and premiums paid or received are accounted for at cost. Realized and deferred gains or losses on these contracts are recognized in the income statement in the same year as the gains or losses resulting from corresponding hedged positions are recorded, and shown in the financial statements in the appropriate categories.

Revenues and expenses in foreign currencies hedged by forward exchange contracts are translated using the net exchange rates established by the terms of the contracts while those hedged by put and call options are translated at the contract exercise price net of premiums paid or received. Exchange gains or losses are recorded in the same year as the revenues and expenses are recorded and shown in the financial statements in the appropriate categories.

Income taxes

The Corporation uses the tax allocation basis of accounting for income taxes. Deferred income taxes result mainly from timing differences between the tax and accounting value of fixed assets.

Inventories

Inventories are valued at the lower of average cost and net realizable value. They include cable system capacity projects held for resale which may remain in inventory for more than one year.

Property, plant and equipment

Property, plant and equipment are recorded at cost including, when applicable, salaries, employee benefits and capitalized interest.

Investments in cable systems correspond to the Corporation's share of the cost of systems as well as indefeasible rights of user which it holds in international cables held by third parties.

Depreciation

Depreciation is calculated using the straight-line method on the basis of the expected useful life of the property, plant and equipment according to the following periods:

Telecommunications equipment	5 to 15 years
Buildings, plant and equipment	3 to 40 years
Cable systems	14 to 20 years
Satellite systems	7 to 13 years
Computer software and equipment	3 to 5 years
Cable ships and submersible craft	7 to 21 years

Any gain or loss resulting from the sale or retirement of property, plant and equipment is charged to income for the year.

2. Significant accounting policies (continued)

Goodwill

Goodwill, representing the excess cost over net assets of subsidiaries acquired, is amortized over 40 years on the straight-line basis. Each year, the Corporation reviews the underlying value of the goodwill by comparing its carrying value to its net recoverable value. The determination of the net recoverable value consists of evaluating forecasted income and non-discounted cash flows. Any permanent decrease in value of the net carrying amount of goodwill is charged to income.

Deferred charges

The following deferred charges are recorded at cost and amortized using the straight-line method over the following periods:

Fiber-optic capacity	Term of the leases (between 9 and 10 years)
Deferred development costs	3 years, from the start of commercial operations
Systems development costs	2 to 6 years, from the date the system is brought into service
Long-term financing charges	Term of the debt

Deferred development costs consist of expenditures incurred in new businesses prior to the commencement of commercial operations. Revenues realized during the pre-operating period are recorded as a reduction of the deferred expenditures.

Research and product development costs

The Corporation annually incurs costs for activities which relate to research and the development of new products. Such costs are expensed as they are incurred. Certain computer software development costs associated with new products are capitalized and amortized over the estimated useful lives of the products, which range from two to six years. Costs are reduced by government grants and investment tax credits where applicable.

Pension plans

The Corporation and its subsidiaries have various contributory and non-contributory defined benefit pension plans. Current service pension costs are recorded in income in the year the services are rendered, while past service pension costs as well as experience gains and losses which have not been recorded in income are amortized over the average remaining service life of the active employee group covered by the plans. The difference between the contributions paid and pension expense is included as deferred charges on the balance sheet.

Retirement benefits

Retiring employees of TCI are paid a benefit based on unused sick leave and length of service. The Corporation discontinued the program in April 1995. The liability is included as a deferred credit and the current portion is reflected in accounts payable.

Revenues

Revenues are stated before any allocation of the carriers' share of telecommunications revenues and reflect the elimination of intercompany revenues. The carriers' share is shown in Note 24 – Segmented information.

Information included in the statement of income

	1996	1995	1994
Depreciation of property, plant and equipment	$ 135.2	$ 141.6	$ 119.4
Amortization of deferred charges	28.1	22.5	4.4
Research and product development costs	6.2	5.7	4.3
Amortization of product development costs	11.3	7.6	11.5
Equity in earnings of companies subject to significant influence	1.4	–	–

Unusual items

In 1995, the Corporation recorded a gain on dilution of $19.8 on the reduction of its ownership, from 100% to 70%, in TMP, a US General Partnership that owns a 50% joint control interest in ORBCOMM Global, L.P.

As well, the carrying value of the assets of IDB Mobile Communications, Inc. (IDB Mobile) was reduced through a $16.2 write-down in recognition of the estimated recoverable value of these assets.

In 1994, TCI completed an organizational review and subsequently approved a plan to improve efficiency and reduce operating costs. TCI recorded a provision of $8.5 for this restructuring, which included amounts for severance as well as other related costs.

6. Financial charges

	1996	1995	1994
Interest expense – long-term debt	$ 53.0	$ 49.9	$ 45.2
Capitalized interest	(8.3)	(11.9)	(13.4)
Allowance for funds used during construction	–	(3.1)	(18.6)
Interest and other income	(8.3)	(5.1)	(2.7)
Loss (gain) on foreign exchange	(3.2)	2.7	1.7
Other	1.3	3.0	3.5
	$ 34.5	$ 35.5	$ 15.7

7. Income taxes

The Corporation's effective income tax rate differs from the statutory tax rate principally as a result of the following factors:	1996	1995	1994
Combined federal and provincial statutory income tax rate	37.9%	39.1%	38.9%
Increase (decrease) resulting from:			
Allowance for funds used during construction	–	(0.9)	(5.6)
Prior years' losses, for which no tax benefit was recorded, utilized during the year	(1.7)	–	(7.4)
Amortization of goodwill	0.8	0.9	1.2
Tax on large corporations	0.2	0.6	1.2
Disallowed depreciation and other	2.0	(1.5)	5.4
Effective income tax rate	39.2%	38.2%	33.7%
The components of the provision for income taxes are as follows:			
Canadian			
Current taxes	$ 72.4	$ 49.6	$ 37.1
Deferred taxes	(1.0)	6.7	4.8
	71.4	56.3	41.9
Foreign			
Current taxes	1.2	(1.6)	1.1
Deferred taxes	(0.1)	0.5	–
	1.1	(1.1)	1.1
	$ 72.5	$ 55.2	$ 43.0

No recognition has been given to potential income tax savings which may result from claiming the following items for income tax purposes:

- Net operating losses of US$29.0 expiring in the years 1997 to 2010 and interest expense of US$2.6 having no expiry date and subject to deduction limitations;
- Research and development expenses of $9.5, having no expiry date.

8. Accounts receivable

	1996	1995
Accounts receivable	$ 428.9	$ 319.6
Current portion of long-term receivables	5.8	1.4
	$ 434.7	$ 321.0

9. Inventories

	1996	1995
Cable system	$ 223.0	$ 235.8
Other	1.6	1.0
	$ 224.6	$ 236.8

10. Investments

	1996	1995
Investments in companies subject to significant influence	$ 10.4	$ –
Portfolio investments	43.5	10.5
	$ 53.9	$ 10.5

These investments include unamortized goodwill of $6.4.

11. Loan receivable

The Corporation, through a wholly owned subsidiary, has committed to provide Optel Communications, Inc. (Optel), a US company in which the Corporation owns a 20% equity interest, with a collateral revolving credit facility of US$42.0. The interest rate on this credit facility is 12% per annum, plus a premium of 3% per annum for up to US$2.5. This facility matures in 2001 unless the outstanding balance does not exceed US$11.3 at that time, in which case Optel has the option to extend the facility for three years for a maximum availability of US$11.3. The proceeds of this facility are to be used by Optel to finance the capital cost of its participation of up to 50% of the capacity in the *CANUS 1* cable system project and its general corporate expenditures.

As at December 31, 1996, the amount outstanding was US$19.2 (US$22.1 in 1995).

12. Property, plant and equipment

	1996	1995
Cost		
Land	$ 8.6	$ 8.6
Telecommunications equipment	531.7	576.3
Buildings, plant and equipment	273.4	252.5
Cable systems	513.3	510.3
Satellite systems	138.3	114.1
Computer software and equipment	73.0	70.9
Cable ships and submersible craft	112.9	121.9
Construction in progress	133.5	120.5
	1,784.7	1,775.1
Accumulated depreciation		
Telecommunications equipment	310.2	327.9
Buildings, plant and equipment	89.5	76.8
Cable systems	151.2	112.4
Satellite systems	53.6	41.3
Computer software and equipment	53.1	49.3
Cable ships and submersible craft	30.3	30.5
	687.9	638.2
Net book value	$ 1,096.8	$ 1,136.9

13. Deferred charges and other

	1996	1995
Systems development costs	$ 35.2	$ 31.7
Fiber-optic capacity	23.5	30.8
Deferred development costs	21.2	2.4
Long-term receivables	19.5	4.1
Pension charges (Note 18)	12.9	12.3
Long-term financing charges	10.9	6.4
Exchange losses	7.9	7.9
Other	6.0	5.6
	$ 137.1	$ 101.2

14. Long-term debt

	1996	1995
Teleglobe Inc.		
Credit facility (US$20.0 in 1995)	$ –	$ 27.3
Second series preferred shares (Note 16)	70.1	70.5
CANTAT 3 (US$47.5; US$68.8 in 1995)	65.1	93.9
	135.2	191.7
Teleglobe Canada Inc.		
Credit facility, effective rate of 4.39%	49.0	–
Debentures, 8.00%, maturing in 2026	100.0	–
Debentures, 8.35%, maturing in 2003	125.0	125.0
Debentures, 8.85%, maturing in 2002	125.0	125.0
Share of INMARSAT long-term debt under capital lease agreements (US$6.9; US$8.2 in 1995), 5.0% to 7.1%, maturing from 2002 to 2006	9.5	11.2
Share of INTELSAT bonds (US$17.2; US$18.2 in 1995), 6.625% to 8.375%, maturing from 2000 to 2005	23.6	24.8
Construction loan, prime plus 0.50%	–	70.1
Promissory notes at 5.64%	–	15.0
	432.1	371.1
Teleglobe Marine (US) Inc.		
Senior notes, 7.05% (US$58.7; US$61.0 in 1995), maturing in 2013	80.5	83.2
Subordinated notes, 7.12% (US$22.9; US$25.0 in 1995), maturing in 2004	31.3	34.1
	111.8	117.3
Teleglobe Mobile Partners		
Share of ORBCOMM Global, L.P., 14.0% senior notes due in 2004 (US$85.0; nil in 1995)	116.5	–
Other	2.9	3.9
	798.5	684.0
Less: Current portion	81.2	8.6
	$ 717.3	$ 675.4

Credit facility

In January 1996, the Corporation entered into a new credit facility of $300.0 (or US dollar equivalent) with a syndicate of domestic financial institutions. This facility matures in 2001 and is divided in two tranches:

– A revolving-term credit facility of up to $280.0 (or US dollar equivalent) made available for general corporate purposes;

– A revolving-term credit facility of up to $20.0 (or US dollar equivalent) made available to the Corporation for general working capital purposes.

Interest rates on this facility are based on bankers' acceptances plus 0.35% or bank prime rate for drawdowns in Canadian dollars, and on LIBOR (London InterBank Offered Rate) plus 0.35% or US base rate for drawdowns in US dollars.

The facility is unsecured save for a second-ranking security granted by certain entities holding, directly or indirectly, an interest in the *CANTAT 3* cable system.

At December 31, 1996, this credit facility was unused.

CANTAT 3

A US$47.5 (US$71.3 in 1995) non-recourse revolving financing facility with respect to the *CANTAT 3* cable system project has been arranged with a Canadian bank. This facility carries interest rates which are based on LIBOR plus 0.5% or US base rate and matures in 2000. It is guaranteed by BCE Inc. (BCE), one of the Corporation's major shareholders, and the guarantee is secured by a pledge of the Corporation's ownership in the subsidiary that owns the Corporation's portion of the *CANTAT 3* and *CANUS 1* cable systems, excluding the portion owned by TCI.

Credit facility

In November 1996, TCI obtained a term credit facility of $49.0 with Canadian financial institutions to replace the construction loan. This non-revolving reducing-term facility is repayable in quarterly installments of $0.5 until expiration in 2001. The credit facility bears interest at rates based either on bankers' acceptances plus 1.375%, the prime rate plus 0.5% or the lenders' cost of loans plus 1.375%. The facility is secured by TCI's shares in 1000 de La Gauchetière West Building Inc. for a principal amount of $59.0 plus interest on such amount, compounded annually at the rate of 20% per annum.

14. Long-term debt (continued)

Debentures

In October 1996, TCI issued debentures at 8.00%. These debentures are unsecured and redeemable at any time by TCI. The 8.35% and 8.85% debentures issued in 1993 and 1992 respectively are unsecured and redeemable at any time by TCI. They were each issued under a trust indenture providing for the creation of a debenture in the principal amount of $300.0.

Promissory notes

TCI is authorized to issue up to $150.0 of promissory notes (commercial paper) which are supported by a revolving credit facility of up to $100.0. This facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25%, on the higher of prime rate and the CDOR (Canadian Deposit Offered Rate) or on LIBOR plus 0.25% for amounts drawn in Canadian dollars, or on the prime rate in the United States for amounts drawn in US dollars.

Operating line of credit

In the course of its operations, TCI can avail itself of a renewable-term credit facility to a maximum of $20.0. This facility is repayable at any time and bears interest at rates based on either the rate of bankers' acceptances plus 0.25%, on the higher of prime rate and the CDOR or on LIBOR plus 0.25% for amounts drawn in Canadian dollars, or on the prime rate in the United States for amounts drawn in US dollars.

Teleglobe Marine – Senior and subordinated notes

Teleglobe Marine (US) Inc. senior and subordinated notes, 7.05% and 7.12%, were issued in 1995 and are secured by an interest in five cable ships which are owned through limited partnerships with a subsidiary of AT&T.

Teleglobe Mobile Partners – Senior notes

In August 1996, ORBCOMM Global, L.P. issued US$170.0 of 14% senior notes, due in 2004, with revenue participation interest equal to 5.0% of the *ORBCOMM* system revenues. The notes are fully and unconditionally guaranteed on a joint and several basis by the joint venture partners including TMP, an indirect subsidiary of the Corporation. The guarantees are non-recourse to the shareholders and partners of the guarantors.

Long-term debt maturities

1997	$ 81.2
1998	10.9
1999	11.8
2000	80.6
2001	51.0
Thereafter	563.0
	$ 798.5

15. Deferred credits

	1996	1995
Income taxes	$ 56.4	$ 62.0
Tenant inducements	6.9	7.6
Revenue	4.4	5.3
Retirement benefits	4.5	5.4
Other	6.9	2.5
	$ 79.1	$ 82.8

16. Capital stock

The Corporation is authorized to issue an unlimited number of common shares, class A non-voting shares and preferred shares, all without nominal or par value.

The first series preferred shares are non-voting and convertible at any time, at the option of the holder, into an equal number of common shares. No dividend may be declared on the common shares and class A non-voting shares unless an equal and rateable dividend has been declared on the first series preferred shares. The holders are entitled to receive capital and any dividends declared thereon before holders of common shares and class A non-voting shares in the event of liquidation, but otherwise the shares rank equally with the common shares. The shares are deemed to be equivalent to common shares for purposes of calculating earnings per share.

The second series preferred shares entitle shareholders to fixed cumulative dividends at a rate of 8% per annum. The shares are non-voting and convertible at any time based on a conversion price of $10.75 per common share. They are retractable on May 1, 1997 and redeemable from May 2, 1997 at a price of $25.00 per share. As at December 31, 1996, there were 2,984,085 shares outstanding.

Based on the new CICA recommendations regarding financial instruments, these preferred shares are classified as compound instruments. The liability component was determined to be $23.50 per share and the equity component (option to convert into common shares) $1.50 per share at the time of issue in May 1991.

The third series preferred shares entitle shareholders to fixed cumulative dividends at a rate of 5.4% per annum. The shares are non-voting and are, at the Corporation's option on and after April 1, 2001, redeemable for cash at $25.00 per share or convertible into common shares of the Corporation determined by dividing $25.00 by the greater of $3.00 and 95% of the weighted average trading price of the common shares at the time of conversion. On and after May 1, 2001, subject to the preemptive right of the Corporation to redeem for cash or to find substitute purchasers at $25.00 per share, the shares are convertible at the option of the holder into common shares of the Corporation based on the same formula used for redemption. At any time, the Corporation may offer shareholders the right to convert into a further series of preferred shares on a one-for-one basis.

The rights attached to the class A non-voting shares are identical to those of the common shares except for the voting right. At December 31, 1996 and 1995 there were no class A non-voting shares outstanding.

Capital stock issued and outstanding and changes in capital stock are as follows:

	Number	Amount
First series preferred shares	1,285,000	$ 18.0
Equity component – Second series preferred shares		4.5
Third series preferred shares		
Issued during 1994 for cash	5,000,000	125.0
		$ 147.5

	Number	Amount
Common shares		
Balance, December 31, 1993	56,763,669	$ 540.8
Issued during 1994		
Exercise of options for cash	54,983	0.5
Balance, December 31, 1994	56,818,652	541.3
Issued during 1995		
Exercise of options for cash	165,327	1.5
Conversion of second series preferred shares	465	–
Balance, December 31, 1995	56,984,444	542.8
Issued during 1996		
Exercise of options for cash	194,589	2.8
Conversion of second series preferred shares	36,539	0.4
Repurchase for cash	(555,700)	(5.2)
Balance, December 31, 1996	56,659,872	$ 540.8

Common shares reserved for:	
Preferred shares	8,224,740
Options, issued to employees and directors at prices ranging from US$4.1128 per share (equivalent to CA$5.64 at December 31, 1996) to CA$37.25 per share, exercisable by instalments over periods extending to 7 years (there were 332,966 options exercisable at December 31, 1996)	1,352,306
	9,577,046

16. Capital stock (continued)

Earnings per share

The weighted average number of common and first series preferred shares outstanding in 1996 used to calculate basic earnings per share was 58.3 million (58.2 million in 1995; 58.1 million in 1994).

Fully diluted earnings per share reflect the most dilutive effect which would have resulted if the second series preferred shares and third series preferred shares had been converted into common shares and if the stock options had been exercised as at January 1.

The number of shares used in the calculation of the fully diluted earnings per share in 1996 was 66.8 million (73.4 million in 1995; 73.0 million in 1994).

The following table shows the diluted earnings per share:

	1996	1995	1994
Net income			
Excluding the effect of the third series preferred shares	**$ 1.68**	$ 1.35	$ 1.30
Fully diluted	**$ 1.68**	$ 1.31	$ 1.25

17. Joint ventures

On October 31, 1996, the Corporation sold its 50% interest in IDB Mobile to NewEast and acquired through TCI a 30% interest in NewEast, a supplier of mobile voice and data communications via satellite. The investment in NewEast is accounted for under the equity method whereas the investment in IDB Mobile was accounted for using the proportionate consolidation method in previous years.

The following amounts relating to joint ventures are included in the financial statements:

	1996	1995
Current assets	**$ 102.4**	$ 37.7
Long-term assets	**435.3**	366.5
Current liabilities	**32.0**	55.8
Long-term liabilities	**151.5**	109.2
Expenses (net revenues)	**(26.4)**	0.6
Cash flow provided by operating activities	**27.8**	47.2
Cash flow applied to investing activities	**(101.0)**	(35.3)
Cash flow provided by financing activities	**107.0**	5.8
Increase in cash flow during the year	**$ 33.8**	$ 17.7

As at December 31, 1996, the Corporation, through an indirect subsidiary (TMP), was committed to invest US$8.7 (US$36.9 in 1995) in the *ORBCOMM* project. Also, under certain events, TMP and Orbital Sciences Corporation were committed to fund up to a maximum of US$30.0 if 20 satellites had not been placed in commercial service and if ORBCOMM Global, L.P., had less than US$25.0 in cash available on December 31, 1998.

In 1995, the Corporation exercised its option to participate in the second phase of the *ORBCOMM* project and thereby obtained joint control over ORBCOMM Global, L.P., a provider of international wireless data communications services. Accordingly, this investment is accounted for using the proportionate consolidation method whereas it was previously carried at cost.

The transaction is reflected in the balance sheet as follows: fixed assets of $54.7, current liabilities of $20.5, long-term debt of $2.4 and other liabilities of $18.5.

18. Pension plans

The Corporation and its subsidiaries have contributory and non-contributory defined benefit plans which provide pensions based on length of service and final average earnings.

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicate that the present value of accrued pension benefits as at December 31, 1996 was $104.1 ($101.4 in 1995) and the net assets available to provide for these benefits, at market value as at December 31, were $134.3 ($123.1 in 1995).

The cumulative difference of $12.9 ($12.3 in 1995) between the funding contributions and the amounts expensed has been reflected in the balance sheet as a deferred pension charge.

The Corporation's Insurance Systems Division has defined contribution pension plans covering all of its employees in Canada and the United States. Under the plan for Canadian staff, employees are required to contribute 2% of earnings, with matching employer contributions. Under the plan for US staff, employees are free to contribute up to 15% of earnings, with matching employer contributions of 2/3 of the first 3% of an employee's contributions. All contributions made under the plan are subject to certain limitations.

The pension expense for the year was $3.7 ($2.8 in 1995; $1.2 in 1994).

19. Changes in non-cash operating balances

	1996	1995	1994
Accounts receivable	$ (121.2)	$ 41.7	$ (93.7)
Inventories	11.0	(3.8)	(1.3)
Accounts payable and accrued liabilities	56.3	(29.8)	46.5
Other	(10.9)	(10.4)	(13.2)
	$ (64.8)	$ (2.3)	$ (61.7)

20. Related party transactions

The Corporation concluded the following transactions with related parties in the normal course of business.

Party	Nature of transaction with the related party	Classification in the Corporation's financial statements	1996	1995
BCE Inc. and its affiliates	Equipment leasing, acquisition of services, financing fees and other	Operating expenses, fixed assets and inventories	$ 32.6	$ 51.1
Joint ventures	Sale of equipment	Fixed assets	(3.1)	(3.3)
	Sale of services	Operating expenses	(6.6)	(3.1)
	Acquisition of services	Operating expenses	21.1	23.0
	Rental of head office premises	Operating expenses	10.9	9.6
Company subject to significant influence	Management services	Operating expenses	0.5	–
	Sale of services	Revenues	1.1	0.8
	Acquisition of services	Revenues	(1.2)	(0.7)
Stentor Canadian Network Management	Sale of services	Revenues	563.4	629.7
	Acquisition of services	Carriers' share of revenues	83.5	81.1
Stentor Resource Centre Inc.	Lease of domestic fiber-optic capacity	Deferred charges	20.0	28.0

All transactions are measured at fair value except for management services from the company subject to significant influence, which are measured at exchange value.

Amounts owed to or receivable from related parties as at December 31 were as follows:

Party	Classification in the Corporation's financial statements	1996	1995
BCE Inc. and affiliates	Accounts payable	$ 1.4	$ 0.4
Joint ventures	Accounts payable	5.9	3.7
Company subject to significant influence	Accounts payable	1.5	1.3
Stentor Canadian Network Management	Accounts receivable	79.7	88.8

Joint ventures

TCI has reached various agreements with BCE, a significant shareholder of the Corporation, regarding the joint construction and operation of an office building. TCI uses the satellite space segments of the INTELSAT and INMARSAT joint ventures.

20. Related party transactions (continued)

BCE Inc. and its affiliates

Bell Canada, Newtel Enterprises Limited, Northwestel Inc., Télébec Ltée and Northern Telephone Limited are subsidiaries of BCE and provide, either directly or through subsidiaries, telephone services in Ontario, Québec, Newfoundland, British Columbia, the Yukon and the Northwest Territories, respectively. New Brunswick Telephone Company Limited, Maritime Tel and Tel Limited and Island Telephone Company Limited are associated with BCE and provide telephone services in New Brunswick, Nova Scotia and Prince Edward Island. Five of these companies are members of Stentor. The others offer telecommunications services pursuant to interconnection agreements with Stentor members. Stentor has reached various agreements with TCI, including an interconnection agreement for the provision of international telecommunications services.

The major portion of income relating to foreign traffic originating in Canada is generated by member companies of Stentor under the terms of the *International Globeaccess Service Tariff*. Moreover, TCI compensates member companies of Stentor for international traffic carried in Canada.

In the normal course of business, TCI has ongoing relations on an arm's length basis with a telecommunications company in the BCE Group, Bell Canada, either directly or indirectly through Stentor. Moreover, TCI transacts with a manufacturer in the BCE Group, Northern Telecom Canada Limited.

21. Financial instruments

The Corporation operates internationally and is therefore exposed to market risks related to foreign currency fluctuations. To reduce these risks, it uses derivative financial instruments such as forward exchange contracts and foreign currency denominated options, principally in US dollars and in special drawing rights. The Corporation does not hold or issue derivative financial instruments for commercial or speculative purposes. Derivative financial instruments are subject to standard credit terms and conditions, financial controls, management and risk monitoring procedures.

Credit risks

The Corporation is exposed to credit risks in the event where third parties fail to perform their obligations under derivative financial instruments. The Corporation does not have any additional guarantees or security regarding derivative financial instruments with a credit risk. However, to reduce these risks, the Corporation diversifies its exchange contracts by dealing with financial institutions having a credit rating at least equal to its own. Accordingly, in management's opinion, none of the parties with which it transacts financial instruments should fail to fulfill their obligations given their high creditworthiness.

Foreign currency risk

The Corporation uses derivative financial instruments to hedge its revenues and expenses recorded in foreign currencies when the probability of their realization is high and their major expected characteristics and execution conditions are identified. Such revenues and expenses are recognized within one year. The duration of derivative financial instruments varies from one to twelve months. Unrecognized gains or losses on these contracts (presented below) are determined using market rates prevailing at the balance sheet date, which are obtained from the Corporation's financial institutions.

	1996		1995	
	Gains	Losses	Gains	Losses
Recognition within one year	**$ 0.1**	**$ (0.6)**	$ 0.7	$ (0.1)

Fair value of financial instruments

The fair value of cash and short-term deposits, accounts receivable and accounts payable is comparable to the carrying amount thereof given as they will mature shortly.

The fair value of portfolio investments and other investments is comparable to the carrying value.

The fair value of long-term debt is determined by discounting future cash flows using rates representing those which the Corporation could currently obtain, at market rates, for loans with similar terms, conditions and maturities.

The fair value of various derivative financial instruments is determined based on market rates prevailing at the balance sheet date obtained from the Corporation's financial institutions for similar financial instruments.

21. Financial instruments (continued)

As at December 31, the carrying amount of all financial instruments recognized in the balance sheet was similar to their fair value, with the following exceptions:

	1996		1995	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset:				
Loan receivable	$ 26.4	$ 27.8	$ 30.2	$ 32.5
Financial liability:				
Long-term debt	798.5	835.8	684.0	708.8
Derivative financial instruments not recognized on the balance sheet				
Forward exchange contracts	52.4	52.4	164.6	164.4

22. Commitments

The Corporation has the following commitments under contracts for services and operating leases for property, plant and equipment:

1997	$ 90.2
1998	55.4
1999	43.7
2000	69.9
2001	29.4
Thereafter	150.8
	$ 439.4

Contractual commitments outstanding as at December 31, 1996 which relate to construction projects amounted to approximately $45.1 ($58.1 in 1995) including the Corporation's share of various joint ventures.

23. Contingencies

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management and supported by counsel that final determination of these claims will not have a material adverse effect on the financial position or results of the Corporation.

24. Segmented information

The Corporation conducts its operations under the following segments:

Telecommunications services – TCI

Provision of international public telecommunications services between Canada and foreign countries other than the United States, under an exclusive mandate granted by the Government of Canada.

Telecommunications services – other

Provision of international telecommunications services, including satellite transmission services, and consulting services for the international telecommunications industry. Installation, maintenance and repair of undersea telecommunications cables and provision of marine consulting services.

Insurance Systems

Development, marketing and support of processing systems and applications software for the insurance industry in Canada, the United States and the United Kingdom.

24. Segmented information (continued)

The following tables present the financial information by industry and geographic segments:

	1996	1995	1994
Industry segments			
Telecommunications services – TCI			
Revenues	$ 1,508.4	$ 1,313.9	$ 1,275.4
Carriers' share of revenues	(965.8)	(829.8)	(854.0)
Amortization of rate stabilization account	–	(6.9)	(9.0)
Intersegment revenues	0.8	0.8	1.2
Operating revenues	543.4	478.0	413.6
Operating expenses	346.7	321.2	286.5
Unusual items	–	–	8.5
Income from operations	196.7	156.8	118.6
Telecommunications services – other			
Revenues	66.5	87.9	82.3
Carriers' share of revenues	(3.9)	–	–
Intersegment revenues	1.0	1.7	7.5
Operating revenues	63.6	89.6	89.8
Costs and operating expenses	35.7	77.6	70.8
Unusual items	–	(3.6)	–
Income from operations	27.9	15.6	19.0
Insurance Systems			
Operating revenues	151.5	152.4	141.2
Costs and operating expenses	146.0	133.1	123.8
Income from operations	5.5	19.3	17.4
Operating revenues			
Telecommunications services – TCI	543.4	478.0	413.6
Telecommunications services – other	63.6	89.6	89.8
Insurance Systems	151.5	152.4	141.2
	758.5	720.0	644.6
Elimination of intersegment revenues	(1.0)	(0.7)	(1.6)
Total operating revenues	$ 757.5	$ 719.3	$ 643.0
Note: Intersegment revenues are accounted for at prices comparable to open market prices for similar products and services.			
Total income from operations before unallocated items	$ 230.1	$ 191.7	$ 155.0
Unallocated items			
Financial charges	34.5	35.5	15.7
Corporate expenses	10.6	11.6	11.7
Income taxes	72.5	55.2	43.0
	117.6	102.3	70.4
Net income	$ 112.5	$ 89.4	$ 84.6
Identifiable assets			
Telecommunications services			
TCI	$ 1,393.3	$ 1,327.3	$ 1,380.7
Other	796.3	635.9	445.4
	2,189.6	1,963.2	1,826.1
Insurance Systems	120.8	117.1	108.3
	$ 2,310.4	$ 2,080.3	$ 1,934.4

24. Segmented information (continued)

	1996	1995	1994
Capital expenditures			
Telecommunications services			
TCI	$ 57.8	$ 88.0	$ 166.1
Other	65.1	63.3	54.7
Insurance Systems	4.5	7.2	8.1
	$ 127.4	$ 158.5	$ 228.9
Depreciation and amortization			
Telecommunications services			
TCI	$ 154.1	$ 150.3	$ 118.4
Other	10.5	33.4	14.3
Insurance Systems	16.0	11.1	10.7
	$ 180.6	$ 194.8	$ 143.4
Geographic segments			
Operating revenues			
Canada			
Domestic sales	$ 342.4	$ 349.5	$ 287.6
Export sales	273.3	219.3	203.7
Transfers	1.8	2.1	7.9
	617.5	570.9	499.2
United States			
Customers	131.9	139.8	138.5
Transfers	0.3	0.7	1.2
	132.2	140.5	139.7
Other			
Customers	9.0	9.0	6.0
Elimination of intersegment transfers	(1.2)	(1.1)	(1.9)
Total operating revenues	$ 757.5	$ 719.3	$ 643.0
Income from operations before unallocated items			
Canada	$ 208.7	$ 169.1	$ 129.9
United States	20.0	22.5	24.2
Other	1.4	0.1	0.9
	230.1	191.7	155.0
Unallocated items			
Financial charges	34.5	35.5	15.7
Corporate expenses	10.6	11.6	11.7
Income taxes	72.5	55.2	43.0
	117.6	102.3	70.4
Net income	$ 112.5	$ 89.4	$ 84.6
Identifiable assets			
Canada	$ 1,540.0	$ 1,425.2	$ 1,490.1
United States	488.4	392.6	243.7
Other	282.0	262.5	200.6
	$ 2,310.4	$ 2,080.3	$ 1,934.4

Five-year review

(in millions of Canadian dollars except number of employees, number of shares and per share amounts)

	1996	1995	1994	1993	1992
Revenues	$ 1,714.2	$ 1,550.7	$ 1,506.0	$ 1,432.2	$ 1,212.4
Operating revenues	757.5	719.3	643.0	543.9	438.1
Income (loss) from continuing operations	112.5	89.4	84.6	65.5	(51.7)
Net income (loss)	112.5	89.4	84.6	69.1	(56.8)
Earnings per share – Basic	$ 1.81	$ 1.41	$ 1.36	$ 1.24	$ (1.19)
– Fully diluted	$ 1.68	$ 1.31	$ 1.25	$ 1.20	$ (1.19)
Total assets	2,310.4	2,080.3	1,934.4	1,768.2	1,502.4
Long-term debt	798.5	684.0	666.9	713.1	597.0
Shareholders' equity	939.2	873.5	811.7	630.9	503.1
Cash dividends declared per share					
Common and first series preferred	$ 0.46	$ 0.39	$ 0.35	$ 0.31	$ 0.28
Second series preferred	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Third series preferred	$ 1.35	$ 1.35	$ 1.08	$ –	$ –
Number of common shares outstanding (in millions)	56.7	57.0	56.8	56.8	52.1
Number of employees	1,882	1,804	1,899	2,128	2,082

Quarterly financial data (unaudited)

(in millions of Canadian dollars except per share amounts)

	First	Second	Third	Fourth	Total year
1996					
Revenues	$ 393.5	$ 411.6	$ 430.8	$ 478.3	$ 1,714.2
Operating revenues	174.3	179.0	199.8	204.4	757.5
Income from operations	41.1	56.0	67.0	55.4	219.5
Net income	17.1	27.4	35.7	32.3	112.5
Earnings per share					
– Basic	$ 0.26	$ 0.44	$ 0.58	$ 0.53	$ 1.81
– Fully diluted, excluding the effect of the third series preferred shares	$ 0.26	$ 0.41	$ 0.54	$ 0.48	$ 1.68
– Fully diluted	$ 0.26	$ 0.40	$ 0.53	$ 0.48	$ 1.68
1995					
Revenues	$ 379.7	$ 392.3	$ 375.1	$ 403.6	$ 1,550.7
Operating revenues	166.4	178.4	173.6	200.9	719.3
Income from operations	36.1	41.8	46.4	55.8	180.1
Net income	15.2	18.7	23.8	31.7	89.4
Earnings per share					
– Basic	$ 0.23	$ 0.29	$ 0.38	$ 0.51	$ 1.41
– Fully diluted, excluding the effect of the third series preferred shares	$ 0.23	$ 0.28	$ 0.36	$ 0.48	$ 1.35
– Fully diluted	$ 0.23	$ 0.28	$ 0.35	$ 0.45	$ 1.31

Five-year review (continued)

Market price	1996		1995	
Montreal and Toronto (in Canadian dollars)	High	Low	High	Low
Per common share				
First quarter	$ 20.875	$ 17.375	$ 21.000	$ 17.875
Second quarter	21.750	19.100	21.625	19.375
Third quarter	25.800	21.550	20.500	18.000
Fourth quarter	41.000	24.000	19.000	17.000
Per second series preferred share				
First quarter	49.500	42.000	50.250	44.250
Second quarter	50.500	45.000	51.500	46.750
Third quarter	58.500	50.000	48.750	43.750
Fourth quarter	95.000	60.000	44.750	41.500
Per third series preferred share				
First quarter	24.250	22.750	22.000	19.375
Second quarter	24.750	23.600	23.250	21.250
Third quarter	25.250	24.250	23.375	22.375
Fourth quarter	26.250	24.900	23.375	21.250

On December 31, 1996, the market price per share on the Montreal and Toronto stock exchanges was:

Common share	– Montreal	$40.60
	– Toronto	$40.50
Second series preferred share	– Montreal	$92.00
	– Toronto	$95.00
Third series preferred share	– Montreal	$26.30
	– Toronto	$26.00

Corporate profile

Teleglobe is a global North American-based overseas carrier whose capabilities can be accessed in virtually all countries. Teleglobe develops and provides intercontinental telecommunications services. It meets the global connectivity needs of established and emerging carriers from around the world, as well as those of cable network operators, broadcasters and other large telecommunications services users, and is expanding to serve select consumer markets. In key markets, the Corporation establishes its presence through its own gateways.

Based in Montréal, **Teleglobe Canada Inc.** is Canada's overseas telecommunications carrier. As such, it maintains commercial relations and operates facilities that allow Canadian domestic network operators and other service providers to exchange traffic with 240 countries and territories. Over the past 45 years, Teleglobe Canada has built up one of the world's most extensive telecommunications networks, which includes satellite links and interests in some 100 submarine cables. It is a member of INTELSAT and INMARSAT, two international organizations that own and operate multi-satellite systems.

Teleglobe International Corporation provides Teleglobe's services around the world, leveraging the Corporation's abundant digital-transmission capacity in both the Atlantic and Pacific regions, where the highest-density routes are found. Based in the Washington, D.C. area, Teleglobe International serves the US and European markets through facilities in the United States, the United Kingdom and Germany—with other countries to be added, and the international market through offices in major cities around the world. Alliances and partnerships are an important part of its strategy.

Teleglobe Media Enterprises is responsible for developing and implementing strategies for Teleglobe's involvement in the new media sector. Working in concert with content providers, applications developers and distributors, TME focuses on three key areas: broadband applications, digital content and emerging digital media services.

Teleglobe World Mobility manages Teleglobe's investments and activities in the mobile satellite communications sector. At the forefront of technologies which represent the next step towards global connectivity, it is involved in two major projects aimed at providing worldwide mobile wireless services: *ORBCOMM*™ (data transmission capabilities) and *Odyssey*™ (voice and data transmission capabilities).

Teleglobe's Insurance Systems Division develops and markets data-processing products and services destined for the general insurance industry in the United States, Canada and Europe.

Teleglobe Inc. is a Canadian public company whose shares are listed on the Montreal Exchange, the Toronto Stock Exchange and the Vancouver Stock Exchange.

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Tel.: (514) 868-7223

Earth Stations
Teleglobe Canada Inc. operates earth stations in Nova Scotia, Québec, Ontario and British Columbia.

International Switching Centers
Teleglobe operates international switching centers in Montréal, Québec; Scarborough, Ontario; Burnaby, British Columbia; New York, NY; and London, UK.

Cable Stations
Teleglobe Canada Inc. operates cable stations in Nova Scotia and British Columbia.

Direct Sales Offices
Teleglobe Canada Inc. has sales offices in Montréal, Toronto, Ottawa and Vancouver.

Teleglobe International Corporation has sales offices in Abu Dhabi, Frankfurt, Hong Kong, Jerusalem, London, Moscow, New York, Paris, Singapore, Sydney, Vienna and Washington, D.C.

Insurance Systems
Canada
Teleglobe Insurance Systems
95 Mural Street, Suite 600
Richmond Hill, Ontario L4B 3G2
Canada
Tel.: (905) 882-6300

USA
ISI Systems, Inc.
Two Tech Drive
Andover, Massachusetts 01810
USA
Tel.: (508) 682-5500

Europe
Teleglobe Limited
One Warwick Row, Fourth Floor
Victoria, London SW1E 5ER
England
Tel.: 44-171-630-0271

Direct Sales Offices
The Insurance Systems Division has direct sales offices in Canada, the USA and England.

Board of Directors

Charles Sirois
Chairman of the Board
and Chief Executive Officer,
Teleglobe Inc.

[3,4] **J. Brian Aune**
Chairman,
St. James Financial Corporation

[2] **André Bureau**
Chairman of the Board,
Astral Communications Inc.
Vice-Chairman of the Board,
President and Chief Executive Officer,
The Astral Broadcasting Group Inc.

[3] **Derek H. Burney**
Chairman of the Board,
President and Chief Executive Officer,
Bell Canada International Inc.

[1] **Pierre Collins**
President,
Capital Communications CDPQ Inc.

[2] **J.V. Raymond Cyr**
Chairman of the Board,
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TMI Communications Inc.

[2] **George A. Fierheller**
President,
Four Halls Inc.

[1,4] **Pierre A. MacDonald**
Corporate Director

[1,4] **C. Edward Medland**
President,
Beauwood Investments Inc.

[1] **Ronald W. Osborne**
President,
BCE Inc.

[3,4] **H. Arnold Steinberg**
Associate,
Cleman Ludmer Steinberg Inc.

[3] **Peter G. White**
Chairman,
UniMédia Division,
Hollinger Inc.

Lynton R. Wilson
Chairman and Chief Executive
Officer, BCE Inc. and
Chairman of the Board,
Bell Canada

[1] Member of the Audit Committee

[2] Member of the Human Resources Committee

[3] Member of the Finance Committee

[4] Member of the Corporate Governance and Related Party Transactions Review Committee

Officers

Corporate Officers

Teleglobe Inc.
Charles Sirois
Chairman of the Board
and Chief Executive Officer

Paolo Guidi
Executive Vice-President,
International Market

Claude Séguin
Executive Vice-President,
Finance and Corporate
Development and Chief
Financial Officer

Guthrie J. Stewart
Executive Vice-President,
Canadian Market
and Network Operations

André Bourbonnais
Vice-President, Legal Affairs
and Corporate Secretary

François Laurin
Vice-President, Finance
and Corporate Controller

Marc Leroux
Vice-President, Technology

Jacques Deforges
Treasurer

Telecommunications Services

Teleglobe Canada Inc.
Charles Sirois
Chairman of the Board

Guthrie J. Stewart
President and Chief Executive
Officer

André Bourbonnais
Vice-President, Legal Affairs
and Corporate Secretary

Brigitte Bourque
Vice-President,
Organization Development

Meriel Bradford
Vice-President,
Government and Regulatory Affairs

Jan Czech
Vice-President, Network

Richard Gendron
Vice-President,
Business Services and
Development

Lise Goulet
Vice-President,
International Telephone Services

François Laurin
Vice-President,
Finance and Controller

Jacques Deforges
Treasurer

Dominique Jacquet
Corporate Chief Information Officer

Teleglobe International Corporation
Paolo Guidi
President and Chief Executive Officer

Gian Franco Bucelli
Vice-President and General Manager,
Eastern Europe, Middle East,
Africa and India

Andrew Burroughs
Vice-President, Global Marketing
and Product Management

Michel Cayouette
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Finance and Strategic Planning
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Rick Ciccone
Vice-President and General Manager,
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Robert D. Collet
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Global Network and Corporate
Chief Information Officer

Denis Richard
Vice-President,
Law & Corporate Affairs
and Corporate Secretary

Philip Walker
Vice-President,
Corporate Development
and Regulatory Affairs

Teleglobe USA Inc.
Paolo Guidi
President and
Chief Executive Officer

John C. Cahill, Jr.
Vice-President and General
Manager

Denis Richard
Vice-President, Law and Secretary

Marc Van Doorn
Vice-President, Finance
and Treasurer

Philip Walker
Vice-President

Teleglobe Marine Inc.
Claude Séguin
Chairman of the Board,
President and Chief Executive Officer

Teleglobe CANTAT-3 Inc.
V. Owen Springer
Vice-President and General
Manager

Teleglobe World Mobility
Marc Leroux
President and
Chief Operating Officer

Teleglobe Media Enterprises
Paul J. Lamontagne
President and
Chief Operating Officer

Insurance Systems
Simon N. Garneau
President and Chief Executive
Officer

Martin P. Ford
Chief Financial Officer

William D. Pitkin
President, Canada

Jack Carpenter
Vice-President, Finance, USA

Donald DeMark
Vice-President, Marketing

Paul Luongo
Vice-President,
Processing Services, USA

Dave Magnan
Vice-President,
Research and Development

June Morris
Vice-President,
General Counsel and Secretary

Patti Rajski
Vice-President, Software

Lucia Valente
Vice-President, Human Resources

David L. Thomas
Managing Director, UK

Investor Information

Auditors
Raymond, Chabot, Martin, Paré
600 de La Gauchetière Street West
Suite 1900
Montréal, Québec H3B 4L8
Canada

Bankers
National Bank of Canada
600 de La Gauchetière Street West
Montréal, Québec H3B 4L2
Canada

Royal Bank of Canada
1 Place Ville-Marie
P.O. Box 6001
Montréal, Québec H3C 3A9
Canada

Bank of Montreal
129 St. Jacques Street West
Montréal, Québec H2Y 1L6
Canada

The Toronto-Dominion Bank
500 St. Jacques Street West
Montréal, Québec H3C 3B7
Canada

Bank of Boston
100 Federal Street
Boston, Massachusetts 02106
USA

Transfer Agent and Registrar
Montreal Trust Co.

Written correspondence:
Montreal Trust Co. of Canada
P.O. Box 1900
Station B
Montréal, Québec H3B 3L6
Canada

Address:
1800 McGill College Avenue
6th Floor
Montréal, Québec H3A 3K9
Canada
Tel.: (514) 982-7555
Fax: (514) 982-7580

Annual Meeting

The Annual Meeting of Teleglobe Inc. will be held at 2 p.m. on Wednesday, May 7, 1997, at the Ritz-Carlton, Kempinski (Salon Ovale), 1228 Sherbrooke Street West, Montréal, Québec. Shareholders are invited to attend this meeting.

Stock Exchange Listings
Teleglobe Inc. is listed on the Montreal Exchange, the Toronto Stock Exchange and the Vancouver Stock Exchange under the symbols TGO for common shares and TGO.PR.A for second series preferred shares, and on the Montreal and Toronto exchanges under the symbol TGO.PR.B for third series preferred shares.

Securities Commission Filings
In addition to its annual report, the Corporation files an Annual Information Form (AIF) with the Canadian securities commissions. Under the multi-jurisdictional disclosure system, it also files with the U.S. Securities and Exchange Commission an annual report, AIF and Management Proxy Circular as attachments to Form 40-F. For further information or additional copies of any of these documents, or to eliminate multiple mailings or discontinue interim reports, please write to:

Teleglobe Inc.
Investor Relations Department
1000 de La Gauchetière Street West
Montréal, Québec H3B 4X5
Canada
Tel.: (514) 868-8124
Web site: http://www.teleglobe.com

Trade-marks
Teleglobe, the symbol , the corporate signature of which it is part, *Globeaccess* and *Globesystem Atlantic* are registered trade-marks of Teleglobe Inc.

CANUS 1, *Globeinternet* and *Assure 2000* are trade-marks of Teleglobe Inc.

Canada Direct and *CANTAT 3* are registered trade-marks of Teleglobe Canada Inc.

ORBCOMM is a trade-mark of Orbital Communications Corporation.

Odyssey is a trade-mark of TRW Inc.

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